adcock ingram
Adding value to life

Annual Report 2009

Heritage • Quality • Integrity

adcock ingram
Adding value to life

Annual Report 2009

Adcock Ingram provides an extensive portfolio of branded and generic medicines, has a strong presence in over-the-counter brands, is South Africa's largest supplier of hospital and critical-care products and supplies established brand name consumables and equipment to medical, research and servicing pathology laboratories.

Our vision

To be recognised as a leading world-class branded healthcare company

Group overview

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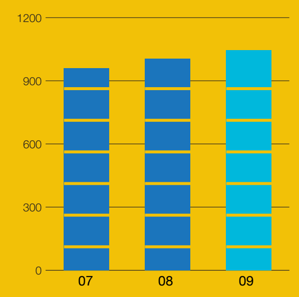
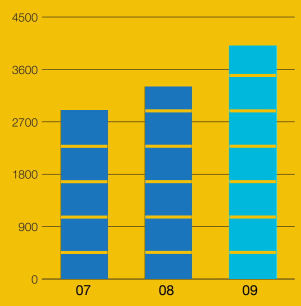
Financial highlights

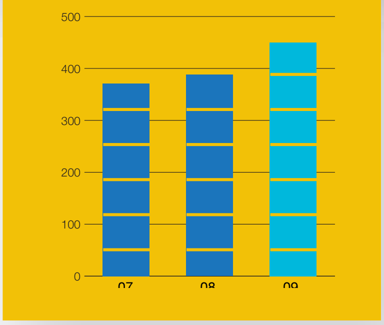
Operating profit (R million)

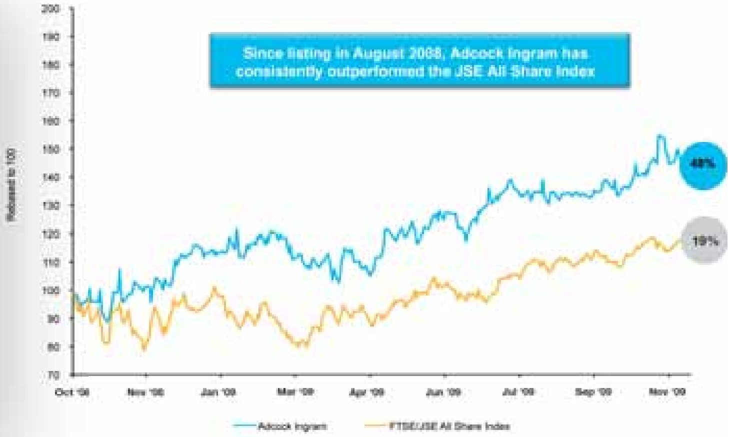


Turnover (R million)



Headline earnings per share (cents)




Since listing in August 2008, Adcock Ingram has consistently outperfomed the JSE All Share Index

Source: Deutsche Securities (SA) (Pty) Ltd - November 2009

	2009	2008	2007
Group summary			
Sales (R'000)	**4 005 153**	3 300 894	2 879 228
Headline earnings (R'000)	**779 346**	668 838	638 780
Basic earnings per share (cents)	**452**	379	325
Headline earnings per share (cents)	**450**	388	371
Interim dividend declared per share (cents)	**70**	–	–
Dividend declared after year-end per share (cents)	**80**	–	–
Balance sheet			
Total assets (R'000)	**3 387 500**	2 712 879	2 521 555
Total interest bearing borrowings (R'000)	**311 481**	438 952	518 465
Shareholders' equity (R'000)	**2 300 653**	1 628 391	(71 244)
Cash flow			
Cash generated from operations (R'000)	**1 130 160**	741 480	1 183 190
Cash generated from operations per share (cents)	**652**	430	686
Cash and cash equivalents (R'000)	**692 717**	395 298	(767 860)

Group at a glance

PHARMACEUTICALS

DIVISION'S FOCUS

- Increase capacity
- Move into adjacent categories
- Expand into new geographies
- Continue to build brands

OUR KEY BRANDS

Over-the-counter

- Adco-Dol
- Panado
- Corenza C
- Vita-thion
- Bioplus
- Citro-Soda
- TLC

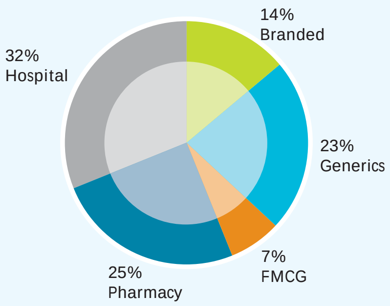
Prescription

- Synap Forte
- Lentogesic
- Adco-Zolpidem

KEY FINANCIAL INDICATORS

	2009	2008	%
Cash operating margin (%)	31	37	(16)
EBITDA (R'm)	862	786	10

DIVISION'S TURNOVER CONTRIBUTION



HOSPITAL

FOSRENOL
500 mg
FOSRENOL
250 mg
Shire

DIVISION'S FOCUS

- Maintain and grow core business
- Innovation
- Service excellence

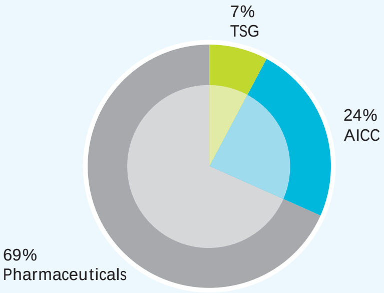
OUR BRANDS

- Sabax intravenous fluids
- Gambro haemodialysis
- Colleague infusion pumps
- Adco range of generic injectables
- Oliclinomel nutrition range
- Fosrenol
- Aranesp
- Fenwal
- One Alpha

KEY FINANCIAL INDICATORS

	2009	2008	%
Cash operating margin (%)	21	25	(16)
EBITDA (R'm)	266	287	(7)

DIVISION'S TURNOVER CONTRIBUTION



Milestones of our first year of listing

- OCTOBER 2008
  - Hosted inaugural GP summit in South Africa.
- MARCH 2009
  - Adcock Ingram launched its Kenya operations.
  - Acquired a major Kenyan OTC analgesic brand, Dawanol.
- APRIL 2009
  - Adcock Ingram acquired 100% shareholding in Tender Loving Care (Pty) Ltd (TLC).
  - Adcock Ingram Limited acquired 45% of Batswadi Biotech (Pty) Limited.
- JUNE 2009
  - Adcock Ingram's CEO, Jonathan Louw was elected President of the Pharmaceutical Industry Association of South Africa, PIASA.
  - Firm intention to acquire Cipla Medpro withdrawn.
- JULY 2009
  - The Scientific Group launched a series of equipment from the ABX range of medical devices into Zambia.
  - Adcock Ingram secures tax relief of R128 million over four years due to special tax allowance.
  - Synap Forte becomes the fifth biggest pharmaceutical brand in South Africa.
- AUGUST 2009
  - GlaxoSmithKline extends the scope of Adcock Ingram's Lamivudine and Zidovudine licence in order to cover Abacavir patents.
  - Adco-Dol reaches R100 million milestone.
- SEPTEMBER 2009
  - TLC camphor cream launched.
  - Tiger Brands sheds its 6% stake in Adcock Ingram.
  - Panado breaks R200 million mark.
- OCTOBER 2009
  - TLC Naturals, a baby care products range, launched.
- NOVEMBER 2009
  - Offer made to acquire Ayrton Drug Manufacturing Limited, a listed pharmaceutical company in Ghana.
  - Broad Based BEE transaction announced.
  - Adcock Ingram acquired the business of Unique Formulations giving us entry into the VMS space.
  - Health Minister Aaron Motsoaledi announced the appointment of Adcock Ingram's Kuben Pillay to Ministerial advisory committee on the National Health Insurance.
  - Adcock Ingram consistently outperformed the JSE All Share Index since listing in 2008.

Adcock Ingram's group strategy

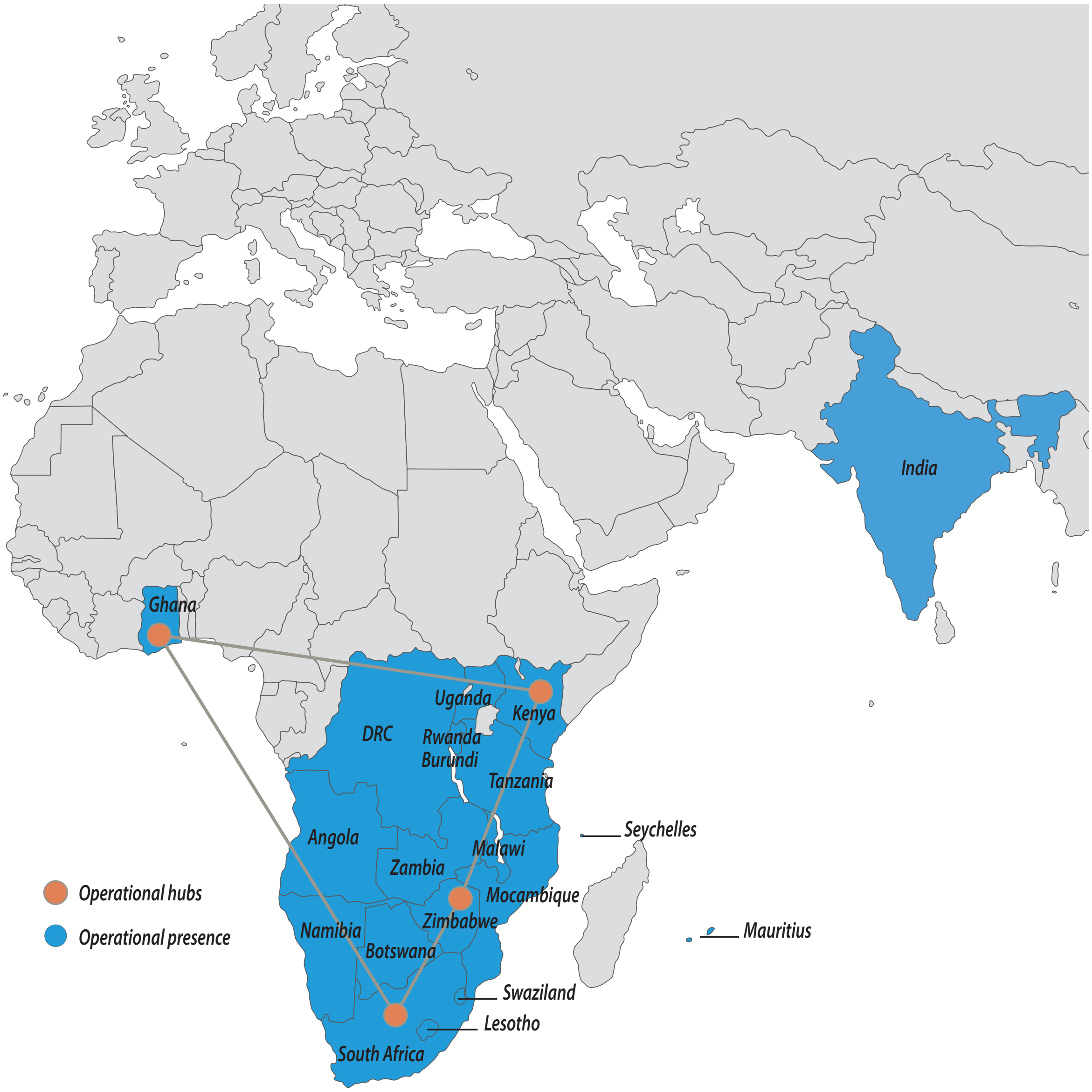
Our strategic priorities are:

Transformation	- *Embracing diversity and supporting the seven pillars of transformation* - *Introduction of a broad based black empowerment scheme*
Optimising our product portfolio	- *To become the corporate brand of choice* - *Increase market penetration* - *Sharing best practice across our channels* - *Adjacent and new therapeutic categories in healthcare*
Pursuing organic growth	- *New product launches and innovation in core therapeutic areas to secure market share* - *Multinational partner of choice in SADC and selected African territories* - *Operational excellence* - *Create a value proposition which supports a solutions based business* - *Strong investment in brand building*
Acquisitions in selected markets	- *Local and adjacent complementary businesses* - *Expansion into the rest of Africa* - *To grow our international footprint*
Development of exportable competence	- *Replicate marketing and sales strategies for SADC* - *Leverage our world class formulation and manufacturing expertise* - *WHO*–accredited research and development facilities* - *MCC*, PIC/S*, MHRA*, TGA* –accredited manufacturing facilities*

**Refer to the glossary on page 133.*

*Leading to sustainable and profitable **growth** through ...*

Adcock Ingram's presence


Ghana
Uganda
Kenya
DRC
Rwanda
Burundi
Tanzania
Angola
Malawi
Zambia
Mocambique
Zimbabwe
Namibia
Botswana
Swaziland
Lesotho
South Africa
Seychelles
Mauritius
India
● Operational hubs
● Operational presence

… passion, respect, innovation, development and **execution**

Board of directors

KDK MOKHELE (54)

Independent Non-executive Chairman

PhD Microbiology, MSc Food Science, BSc Agriculture

Khotso Mokhele was the founder president of the National Research Foundation and served as its CEO from 1999-2006. He has been the chairman of the National Skills Authority, acting as an adviser to the Minister of Labour and chairman of the Premier's Economic Advisory Council for the Free State Province. In addition to his non-executive chairmanship of Adcock Ingram. Khotso serves in a non-executive capacity on the boards of Impala Platinum Holdings (chairman), Tiger Brands Limited and Zimplat Holdings as well as on the board of trustees of the Hans Merensky Foundation.

T LESOLI (59)

Independent Non-executive

MB BS, Dip of Child Health

Tlalane Lesoli is a medical doctor and is a registered practitioner with the South African Medical and Dental Council and the British General Medical Council. She has served as a medical director for the Transmed Medical Fund and co-founded and managed a health products company, Mother Earth Distributors. Tlalane is a non-executive director on various other boards, including Woman Investment Africa Network. She chairs the transformation committee of Adcock Ingram.

EK DIACK (52)

Independent Non-executive

BAcc, CA (SA), AMP (Harvard), AMP (UCT)

Eric Diack is a chartered accountant and was previously the CEO of Anglo American Ferrous and Industries Division. In addition to his directorship of Adcock Ingram, Eric serves as a non-executive director of ArcelorMittal, Ayavuna Appliance Holdings, Ayavuna Appliance Investments and Deplian Investments. He has previously been a director on the boards of ten listed companies as well as numerous major unlisted companies. He is the chairman of the Adcock Ingram audit committee.

AM THOMPSON (52)

Independent Non-executive

BSc (Civil Engineering), MBA

Andrew Thompson spent much of his career in the Mondi Group where he joined as group Fibre Resources Manager in 1987. He rose quickly through the ranks to become Group CEO in 1999 and executive chairman in 2003. Between 1996 to 2004, he represented the Mondi Group's interests on the boards of some 20 subsidiary and associated companies. Andrew currently serves on the board of Mondi Packaging South Africa and is a Trustee of WWF (SA).

RI STEWART (57)

Independent Non-executive

PhD (Med), MB, ChB, Grad Dip Comp Dir

Roger Stewart serves as associate professor of physiology at the University of Stellenbosch and a fellow of the American College of Chest Physicians. He was formerly a group executive at the South African Medical Research Council. Roger was also responsible for local and international products and business development for the SA Druggists Group. He also serves on the boards of a number of private companies in Southern Africa and Europe.

CD RAPHIRI (46)

Independent Non-executive

BSc Mechanical Engineering, Graduate Diploma in Engineering, MBA

Clifford Raphiri began his career as a consulting engineer with Andersen Consulting. After a stint at Metal Box (now Bevcan) as a project engineer, he went on to join SA Breweries (SAB) as a quality assurance technologist and has served in various manufacturing leadership positions. Clifford is currently employed as the manufacturing and technical director of SAB and serves on the boards of various SAB Limited subsidiaries.

Note

All directors were appointed on 15 July 2008

LE SCHÖNKNECHT (56)

Independent Non-executive

BCompt (Hons), CA (SA)

Leon Schönknecht is a chartered accountant who previously held the position of CEO of United Pharmaceutical Distributors (UPD). He was later appointed managing director of New Teltron (Pty) Limited as well as non-executive chairman of UPD and a director of the Premier Group. Leon remains the managing director of New Teltron (Pty) Limited.

AG HALL (47)

Chief Financial Officer

CA (SA), BPharm

Andy Hall joined Adcock Ingram in October 2007 as the chief financial officer from his previous position as chief financial officer of another listed pharmaceutical company in South Africa. Prior to that, Andy was the partner in charge of health sciences at Ernst & Young where he spent 13 years. Before joining Ernst & Young he was involved in retail pharmacy for two years and in sales and marketing with Pfizer for five years.

JJ LOUW (40)

Chief Executive Officer

MB, ChB, MBA

Jonathan Louw practised as an anaesthetist at St. Mary's Hospital in London in the 1990s before leaving full time medical practice to join the pharmaceutical industry in 1999. He initially worked for AstraZeneca in South Africa. He later joined Adcock Ingram Holdings in 2001, as the new business development executive, overseeing geographic expansion and spearheading acquisitions and new product development. Jonathan took over the management of the pharmaceutical business in late 2002, restructuring the business and integrating various acquisitions. He is currently the chief executive officer of the Adcock Ingram Group; and the president of the Pharmaceutical Industry Association of South Africa.

Executive committee

JONATHAN LOUW

Chief Executive Officer

MB, ChB, MBA

For detailed CV, please refer to page 7.

BILL TWEEDIE

Managing Executive – Pharmaceuticals

BCompt (Hons), CA (SA)

Bill Tweedie has held various financial positions within both Adcock Ingram and Tiger Brands over the past 18 years, including that of group financial executive of Tiger Brands. He was financial director of AICC and general manager of National Renal Care before moving onto Tiger Brands as financial director of Beacon Sweets. He spent three and a half years in a corporate role at Tiger Brands. In 2004 Bill embarked on a career change and re-joined Adcock Ingram in a sales and marketing executive position in charge of OTC. In December 2007, Bill was appointed managing executive of Pharmaceuticals and has been an executive of Adcock Ingram Healthcare since unbundling from Tiger Brands in August 2008.

KUBEN PILLAY

Executive – Strategic Trade, ARVs & Public Sector

BSc, NHD, PBL, MBA

Kuben Pillay graduated as an industrial chemist and has been in the ndustry for 28 years. He joined Adcock Ingram in 1994 as a process chemist in research and development. Kuben was appointed to the Adcock Ingram executive team in 2001 as drug management and development executive. In October 2006, Kuben was appointed to his current position which involves a focus on public sector business, ARVs, interaction with various government bodies and industry and trade organisations on strategic pharmaceutical and policy matters. Kuben was recently appointed to Government's new advisory committee on the proposed National Health Insurance.

VIRAL DESAI

Executive – New Business Development

BPharm, BCom

Viral Desai has been with the group for over 10 years and had served the company in several technical and commercial roles. His current role covers group responsibility for corporate and business strategy development with a strong focus on acquisitive growth of products and companies inside and outside the borders of South Africa. From an organic growth perspective, Viral is also responsible for ensuring a sustainable product pipeline for each business through his department's business development activities, which include licensing arrangements with new and existing multinational generic and innovator companies.

SHAWN LANDMAN

CEO – The Scientific Group

BCom, BAcc, CA(SA)

Shawn Landman joined The Scientific Group in August 2001 as commercial director. In October 2005 Adcock Ingram acquired 74% of the shareholding of The Scientific Group and Shawn was appointed as CEO. He was previously financial director of Verimark. Prior to that Shawn held a financial management role within the listed engineering group, Dorbyl, which he joined after completion of his articles with KPMG.

KYM ROWAT

Managing Executive – Hospital Products

Dip General Nursing, Midwifery, Psychiatry, Intensive Care (Hons), IMM, MBA

Kym Rowat joined the Adcock group in 2000, after a five year career at 3M, developing sales and marketing competencies and achieving global recognition in 1997 with the 3M Sub- Saharan Marketing Award. Since joining the Hospital Products division, Kym has held various roles, including marketing, key accounts, tenders and customer services. In 2002 she became category executive for medicine delivery. Highlights include the consistent growth of core products through value-adding proposals, the successful launch of Infusion pumps to a 54% market share and double digit growth in the new product pipeline with generic injectable drugs. Kym was appointed managing executive of Adcock Ingram Critical Care in January 2008.

BASADI LETSOALO

Executive – Human Resources

Hons Psych, CLDP, MPsych, MLCP

A trained clinical psychologist, Basadi Letsoalo joined Adcock Ingram in January 2008. After a few career changes, she found herself drawn to the retail banking sector, initially with ABSA as head of HR information management and later with Standard Bank SA as head of transformation. Basadi spent a short stint with the Edcon Group as HR Strategist for special assignments prior to taking up her current role.

KENNEDY MUBAIWA

Medical Executive – Drug Management & Development

MB.ChB, Dip Anaesthesia, MBA

Kennedy Mubaiwa has headed drug management and development (DMD) since joining Adcock Ingram in June 2005. DMD is comprised of research, development and implementation (RD&I), regulatory affairs South Africa, regulatory affairs international, group quality assurance, medical information and pharmacovigilence. Since a robust pipeline is the life blood of any pharmaceutical company, DMD continues to drive the registration of products in all the markets where Adcock Ingram operates. Through group quality assurance, medical information and pharmacovigilence, DMD sees to it that Adcock Ingram products are developed and manufactured to the highest quality possible whilst being safe and efficacious.

ANDY HALL

Chief Financial Officer

CA (SA), BPharm

For detailed CV, please refer to page 7.

RAMANI NAIDOO

Group Company Secretary

BA, LLB, Cert M&A

Ramani Naidoo joined Adcock Ingram as group company secretary and head of legal in July 2008. She spent seven years as a practising attorney, before taking up her first corporate role as company secretary of the Airports Company SA. Her other positions have included head of legal services for the Southern Sun Group, and director of Edward Nathan Corporate Governance Advisory Services. She has a special interest in and has written extensively on corporate governance. The 2nd edition of her book *Corporate Governance – An Essential Guide for South African Companies* was published in November 2009. Ramani was formerly a non-executive director of African Bank Limited (ABIL) and is currently a non-executive director of Allied Technologies Limited (Altech) and a member of the Advisory Council of the Centre for Responsible Leadership of the University of Pretoria.

Chairman's report

DR KHOTSO MOKHELE
Chairman

> "It is apparent that Adcock Ingram has passed its first full financial year since relisting with flying colours."

In this section

- *Adcock Ingram has pursued a growth strategy that includes both organic and acquisitive growth.*
- *Revenue increased by 21,3% to R4 billion.*
- *Adcock Ingram's transformation and CSI targets reached.*
- *South Africa intensifies national struggle against HIV and AIDS.*

I look back on a 2008/09 financial year that fell in the trough of probably the deepest economic recession since the 1930s. Few, if any, economies around the world were untouched and South Africa – as with most emerging economies – was deeply impacted.

Our country was fortunate, though, to suffer less than many others due to wise financial legislation, in particular the National Credit Act, that fortuitously became effective in 2007, and the fact that most major South African banks stayed clear of the financial instruments that spelt disaster for other banks around the world.

Although by the end of 2009 the recession had ended in South Africa and was starting to lift in many other countries, at this time it appears that recovery will be sluggish, and our country is unlikely to reach previous economic growth levels before late 2010 or 2011.

In this context, Adcock Ingram is fortunate to be trading in an industry sector characterised by a limited percentage of discretionary spend. Adequate healthcare is a need rather than a want, and individuals will often reduce their spending in other areas before compromising their healthcare needs.

I am pleased to report on a successful year's results in this first full financial year since Adcock Ingram was unbundled from Tiger Brands. Despite the challenges, both Adcock Ingram divisions – Pharmaceutical and Hospital Products – increased their turnover, with group revenue increasing by 21,3% to R4 billion (2008: R3,3 billion). Pre-tax profit improved by 14,7%, from R907 million to R1,04 billion. This satisfying result was primarily due to a 12% increase in the volume of goods traded and a 13,2% Single Exit Price (SEP) increase in medicines sold to the private sector.

National and health sector political transition

In September 2008, as the global economic crisis unfolded with the collapse of global banks such as Lehman Brothers, South Africa experienced a political crisis which led to Mr Thabo Mbeki resigning as President of the Republic. Fortunately, this potentially fraught situation was sensitively handled with our current Deputy President, Mr Kgalema Motlanthe, ably taking over the reins through to the election of President Jacob Zuma in April 2009.

Between October 2008 and the end of 2009, South Africa had two new Ministers of Health, initially Ms Barbara Hogan and currently Dr Aaron Motsoaledi – both excellent choices. Dr Motsoaledi is a medical doctor, who since the first democratic election in 1994, has been an impressive Member of the Executive Council (MEC) in various portfolios in the Limpopo provincial government. He is clearly in touch with South Africa's health issues and has already taken positive and decisive steps to tackle acute problem areas such as service delivery at our public hospitals and clinics, and to manage human resource challenges experienced by our healthcare professionals.

Adcock Ingram board and executive management

Since their appointment in 2008, my fellow directors on the board have proven to be well matched to their duties and generous in allocating time to board matters and guiding Adcock Ingram's executive management. All have shown insight into Adcock Ingram's strategy and have empowered its executive team to react swiftly to situations on the ground. I am satisfied that this is a board of directors with exceptional integrity that will conform to the incoming King III corporate governance requirements without difficulty. Our company secretary, Ramani Naidoo, has already paved the way in her structuring of the group's corporate governance policies.

Since Adcock Ingram regained its independence, the board faced a substantial workload, making it necessary to meet considerably more often than the traditional quarterly meeting. For example, the transformation committee held nine meetings during the year. Due to the amount of work required, and the current demands placed on its directors, particularly the non-executives, I do believe that Adcock Ingram could benefit from appointing an additional independent non-executive director.

Adcock Ingram is also fortunate to be managed by an executive team that seamlessly combines youthful energy, deep experience, industry knowledge and exceptional expertise. Led by Chief Executive Officer, Dr Jonathan Louw, with the close support of Chief Financial Officer, Andy Hall, I am confident that the group is in excellent hands.

The talent within this company has been recognised externally, as exemplified by the appointment of Adcock Ingram executives to influential national bodies. I congratulate Jonathan Louw on being elected the President of the Pharmaceutical Industry Association of South Africa (PIASA) and Kuben Pillay, who with more than 28 year's industry experience, was recently appointed to the Ministerial Advisory Committee on the National Health Insurance. My congratulations also to Ramani Naidoo who this year published her latest book on corporate governance, titled *Corporate Governance – An Essential Guide for South African Companies* (2nd edition).

Acquisitive and organic growth

Since unbundling, Adcock Ingram has pursued a growth strategy which includes both organic and acquisitive growth. While growing turnover and revenue, the group will continue to use its strong cash generation capabilities to acquire businesses that add to its brands and spread of products, as well as using acquisitions to expand into adjacent categories.

South Africa intensifies national struggle against AIDS

On 1 December 2009, World AIDS Day, President Jacob Zuma announced that the South African government would intensify and broaden its campaign against the scourge of HIV and AIDS with the words "…the time comes in the life of any nation when there remains only two choices: submit or fight. That time has now come in our struggle to overcome AIDS".

The President outlined a range of specific measures aimed at turning the tide, including a nation-wide HIV testing drive and making antiretrovirals (ARVs) more widely available.

On behalf of Adcock Ingram, I applaud this decisive intervention by the President and the Department of Health. A swift roll-out of this campaign will be critical to its success.

South African National AIDS Council

We further welcome the changes at the South African National AIDS Council, particularly the fresh leadership of Dr Nono Simelela. With an outstanding record as a specialist doctor, and an exemplary reputation in public service, a fearless history as a medical activist and with international experience gained during her five year tenure at the International Planned Parenthood Federation, I am confident that Dr Simelela will help drive the agenda of the Council to accelerate the fight against the HIV and AIDS pandemic.

Chairman’s report continued

Corporate citizenship and ethics

Adcock Ingram complies with all transformative legislation, which we view as an essential national priority rather than a points scoring exercise. We view our obligation to transform the company as a necessary contribution to a national journey towards a more equitable South African society. We also encourage all our stakeholders, including our clients and suppliers, to participate in this evolving Adcock Ingram corporate culture.

Adcock Ingram is proud of its extensive corporate social investment (CSI), which focuses on where we can provide practical interventions through the supply of medical equipment, medicines and expertise. As 2010 will mark the 120th anniversary of Adcock Ingram’s establishment, our CSI initiatives for the year ahead will focus on 120 CSI projects through which we can live our mission to ‘add value to life‘.

Appreciation

It is clear that Adcock Ingram has passed its first full financial year since relisting with flying colours. I believe that this achievement, which establishes a sturdy foundation for greater triumphs ahead, is the result of the remarkable synergy of effort and expertise that I witnessed throughout, from board and executive management cascading down through all levels in the group.

Jonathan and his management team have displayed strong yet inclusive leadership, which motivates Adcock Ingram employees to unstintingly give of their best. As a result, all the post-unbundling ‘hard yards’ that needed to be covered this year were accomplished. Business units were restructured and new processes introduced, operations and distribution functions were consolidated at Midrand and the upgrading of all our manufacturing plants is underway and scheduled for completion by 2012. All this required massive effort and I warmly thank all who gave so freely of their time, expertise and energy.

I thank our business partners and clients for their patience and support while we introduced a new distribution system and business processes, with the inevitable teething issues.

To all Adcock Ingram employees, thank you for making us so proud. I look forward to our next steps in this journey together.

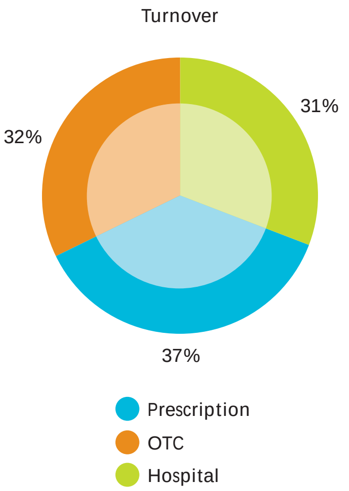
Mokhele

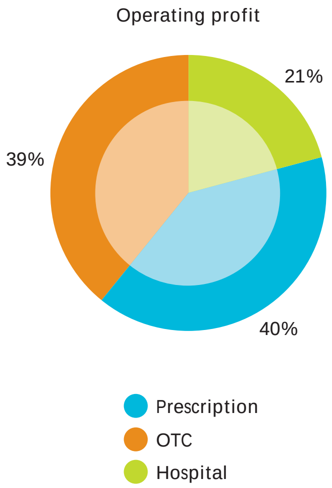
Dr Khotso Mokhele
Chairman

Segmental analysis

Reporting ***excellent*** *results*

	Turnover			Operating profit		
R millions	**2009**	2008	2007	**2009**	2008	2007
Group	**4 005**	3 301	2 879	**1 045**	1 005	961
Pharmaceuticals	**2 756**	2 130	1 866	**824**	754	717
OTC (Schedule 0-2)	**1 289**	1 088	957	**402**	417	400
Prescription (Schedule 3-7)	**1 467**	1 042	909	**422**	337	317
Hospital products	**1 249**	1 171	1 013	**221**	251	244





Chief executive officer's report

DR JONATHAN LOUW

Group Chief Executive Officer

> I look back on a year that has clearly laid the foundations for Adcock Ingram's future.

In this section

- *Financial results*
- *Dividend*
- *Efficient operational and governance structures*
- *Rebuilding Adcock Ingram*
- *Strong organic growth*
- *Divisional overview*
- *Growth through acquisitions*
- *Transformation and corporate social investment*
- *Partnership with Baxter Healthcare*

As a newly unbundled company, becoming independent at the same time as the global economy entered its deepest financial crisis in decades, Adcock Ingram faced significant challenges in its first full financial year since relisting on the JSE Limited Securities Exchange in August 2008. It is nevertheless a year on which I can look back on with unqualified pride. Our newly elected board, my management colleagues and our motivated workforce dug deep into the 120 year heritage that is Adcock Ingram, to overcome all of the challenges with flying colours. As a result Adcock Ingram is off the starting blocks, and we are well on track to achieve our business goals.

Highlights

Financial results

Adcock Ingram delivered strong financial performance and a sound balance sheet. Our headline earnings increased by 16,5% and headline earnings per share by 16,1%. Robust cash generation saw net cash inflow of R754 million from operating activities, which enabled the group to comfortably service debt and fund capital expenditure from its operating cashflows. We also engaged consultants to advise on our working capital management, which improved significantly in the period under review.

Adcock Ingram's turnover increased by 21,3% to R4,0 billion, based on volume growth across the entire business, particularly: antiretrovirals (ARVs), a well-timed 13,2% Single Exit Price (SEP) increase and an improved product mix.

Dividend

Adcock Ingram paid two dividends of 70 and 80 cents per share respectively; the first after the interim results and the second after year end. This was in line with our dividend policy which was announced at the time of unbundling.

Efficient operational and governance structures

After nine years as part of the Tiger Brands corporate infrastructure, Adcock Ingram was compelled to quickly establish independent operational and governance systems to best serve our specific needs as a fast-growing healthcare group.

This presented an opportunity to design and implement corporate systems that would enable Adcock Ingram to function optimally. Our business divisions analysed and streamlined their operations, while the group was highly fortunate to persuade one of South Africa's foremost corporate governance practitioners, Ramani Naidoo, to join us as our company secretary. Ramani has since updated Adcock Ingram's corporate governance structure to meet all current regulations and be prepared for the requirements of the King III Report on Corporate Governance and the incoming provisions of the 2008 Companies Act.

We are also replacing all enterprise management and manufacturing IT systems with the rollout of a unified Oracle IT foundation that will coordinate all business processes and offer additional functions such as much-improved demand forecasting. In 2010 our manufacturing plants will convert to the new Oracle 12i module, which can support both discrete and process manufacturing.

In this reporting period, we finalised and consolidated the shift of all Adcock Ingram primary operations, distribution and warehousing to our new Midrand facility. This move from Isando and various other locations was not without difficulty and we were temporarily constrained in meeting all our commitments. Having now bedded down and integrated all our key management, storage and distribution under one roof, we are benefiting from excellent cost savings and are able to offer higher service levels than were previously possible.

Rebuilding Adcock Ingram

During the year under review, we continued to make excellent progress towards the R1,2 billion upgrading and restructuring of all our manufacturing facilities. The extensions to our Bangalore, India, manufacturing plant became operational in June 2009. These were inspected and accredited by South Africa's Medicines Control Council (MCC), as well as relevant authorities from the UK, Australia and some US based companies. Bangalore's close proximity to the Indian and Chinese producers of the bulk of the Active Pharmaceutical Ingredients (API) that go into our tablets and capsules motivated us to move our manufacturing of some of these items to that location. In addition, air or sea freighting tablets and capsules, where necessary, is simpler and less expensive than transporting liquid and cream based formulations.

Over the next three years, Adcock Ingram will spend more than R850 million on the last phase of upgrades to our three South African plants, which will make these fully compliant with international accreditation standards and should provide sufficient capacity for at least the next decade.

In this process, all our ARVs and part of our low volume liquid pharmaceuticals manufacturing will be moved to our Wadeville plant. At the same time, we are building an entirely new factory on the Clayville site to expand our production capacity of high-volume liquid pharmaceuticals.

On completion of the current phase of rebuilding Adcock Ingram we will have the most advanced pharmaceutical manufacturing plants in Africa. These, backed by our state-of-the-art plant in Bangalore, (India), will position us ideally to take advantage of the increasing demand from African and Asian markets.

Strong organic growth

Despite the recessionary economic climate, we recorded sound organic growth in volumes across most portfolios, particularly Prescription and Hospital products. Over-the-counter (OTC) growth was, however, slower due to consumer down-trading to cheaper products, or buying smaller dispensing packs. Of all our business units, only The Scientific Group (TSG) showed a slight decline, as a result of the termination of a significant distribution contract on behalf of a multinational corporation due to change of control clauses. TSG however, recorded excellent growth in its other operations.

Divisional overview

Our Generics business experienced a tough year in the face of fierce competition and price erosion. Although market share and prices fell in this period, we are confident, in the medium term, that our robust pipeline of more than 300 new dossiers will maintain and grow our strong position in this sector.

The decline in the OTC portfolio was offset by certain of our leading prescription products gaining significant market share in this period.

The Pharmacy portfolio took pressure from consumer downgrading to cheaper brands, margin erosion and the rescheduling of ephedrine.

Our Hospital products showed reasonable volume growth, but margins came under pressure as certain products in the Critical Care Division did not benefit from the SEP increase mentioned earlier. Negotiations with the DOH in respect of this issue are ongoing.

TSG's fundamental business remained sound and its business units recorded acceptable growth.

Growth through acquisitions

Adcock Ingram is continually seeking acquisitions that accord with our strategy of acquiring complementary and adjacent category businesses or brands. In terms of

Chief executive officer's report continued

this business model, we acquired 100% of Tender Loving Care (Pty) Limited (TLC), a leading personal care company in the fast moving consumer goods (FMCG) category. We have since launched TLC camphor cream, the first of many new products aimed at giving Adcock Ingram entry into this category. We also recently acquired the business of Unique Formulations. Unique is a well-established vitamin, minerals and supplements (VMS) brand that gives the group a footprint in another adjacent pharmaceutical category.

Strategic acquisitions continue to play a role in our expansion into wider African markets. An East African hub, established in Kenya to service that market and neighbouring countries, has already contributed revenue of R20 million in the year under review. Also during the year, we acquired the popular Kenyan analgesic brand, Dawanol.

Adcock Ingram recently made an offer to acquire a controlling interest in Ayrton Drug Manufacturing Limited, a company listed on the stock exchange of Ghana. This acquisition, which was concluded after the financial year end, is subject to confirmation by the Ghanaian regulatory authorities.

The proposed Cipla Medpro acquisition

Shareholders will be aware that early in 2009 Adcock Ingram made an offer to acquire generics manufacturer Cipla Medpro for R2,13 billion. We considered this proposed acquisition to be a natural fit for both companies, with both standing to gain market share as a result. Cipla Medpro's management resisted the deal, with the result that it was eventually abandoned. Our growth strategy remains based on a balanced mix of organic growth and acquisitions. We will continue to monitor target markets and categories for potential acquisitions and mergers.

Transformation and corporate social investment

I am pleased to report that Adcock Ingram met all its transformation, employment equity and corporate social investment (CSI) targets for the financial year under review. Simultaneously with the release of our year end results, we announced a major Broad-Based Black Economic Empowerment (BBBEE) strategic partnership transaction which includes a significant staff empowerment scheme. This process commenced with a public call for suitable BBBEE applicants in March 2009, followed by the rigorous evaluation of applicants and extensive negotiations with short-listed candidates.

We achieved a preferential procurement score of 15,2 points out of a possible 20 in terms of the DTI scorecard. This is a sharp improvement on the approximately 6 points of the previous year. The group also achieved the full 5 points available for its CSI initiatives. The "Our people" section of this annual report (commencing on page 30) reflects our achievement of employment equity targets and our significant investment in training and skills development.

Pricing regulatory changes

In November 2009, the Department of Health gazetted a proposed amendment to Regulation 10 of the Medicines and Related Substances Act, 1965 relating to SEP. The new Regulation 10A will permit pharmacies whose operations would be uneconomic under regular SEP provisions to apply for a customised SEP regime to suit their particular circumstances. We welcome these proposals as we believe they will enable greater numbers of relatively isolated. South African residents to retain access to local pharmacies.

Balanced portfolio of products

Adcock Ingram's product range is well balanced between SEP regulated and market-priced products. Our Hospital products portfolio comprises 30% SEP and 70% market-priced products. The latter category includes products such as capital equipment used in hospitals, large and small parenterals, intravenous (IV) products, anaesthetics and the like.

Our Prescription portfolio is quite different, with almost all products being SEP-based, while our extensive OTC range is equally split between SEP and non-SEP products.

With our entry into the FMCG market through the acquisition of TLC, and into the VMS sector through the purchase of Unique Formulations, Adcock Ingram's reliance on its SEP regulated portfolio has been reduced.

Adcock Ingram has quickly become the second largest supplier of pharmaceutical products to the South African government through state tenders, particularly in ARVs. We are particularly pleased that, despite the disruption of our manufacturing plants due to upgrades, we still consistently supplied our full quota of ARVs in accordance with the state tender, and have been highly commended for our exemplary service levels while doing so.

Our balanced portfolio of products and services, supported by a healthy pipeline of new products, continues to generate the strong cash flows needed to broaden our ranges to further optimise our offering.

Partnership with Baxter Healthcare

For over 60 years, Adcock Ingram has enjoyed a mutually beneficial working partnership with Baxter Healthcare (Baxter), from which Adcock Ingram Critical Care (AICC) licenses most of its products. Baxter presently has a call option to purchase a controlling shareholding in AICC, which it can exercise in February 2010. We are convinced, should Baxter decide to exercise its option, that our fruitful partnership will continue and that employees and customers will not be negatively affected.

Conclusion

I look back on a year that has clearly laid the foundations for a dynamic and growing Adcock Ingram. Our unbundling from our former parent, amidst a year of economic turmoil, has tested our mettle and inspired us to take the business to new heights.

Our new, productivity-enhancing systems are in place, distribution is smooth and cost-effective, and our manufacturing capacity is being modernised to the highest international standards.

A key factor in this year of achievement has been the wise counsel and leadership of the board of directors, which paid close attention to Adcock Ingram's business imperatives and were always available to guide me and my executive team.

The hard work on the ground was done by Adcock Ingram's employees, whose willingness and perseverance during a difficult transition kept me inspired and motivated.

Thank you all for this unforgettable first full financial year. With all aspects of our business strategy falling into place, we are ready to take on even greater challenges and grow the business of Adcock Ingram into the future.

Sincerely,

Dr Jonathan Louw
Chief Executive Officer

Chief financial officer's report

ANDY HALL
Chief Financial Officer

More than a year after listing on the JSE, Adcock Ingram has delivered strong financial performance and a sound balance sheet.

Financial results

Overview

More than a year after listing on the JSE, Adcock Ingram has delivered strong financial performance and a sound balance sheet. Headline earnings increased 16,5% and headline earnings per share 16,1%. Adcock Ingram continued its strong cash generation with R754 million derived from operating activities, which allowed the group to maintain its ability to fund the capital expenditure programme from operating cashflows. The group's capital expenditure was R229 million during the year. The group's turnover benefited from volume growth across the business, particularly in antiretrovirals (ARVs), a timeous Single Exit Price (SEP) increase and product mix, increasing turnover by 21% to R4,0 billion (2008: R3,3 billion).

Despite the higher gross profit on the back of strong turnover, the group experienced margin compression as a result of Rand weakness in the first half of the year, and a change in the product sales mix with increased ARV sales and low gross margin contract manufacturing sales to its former parent, Tiger Brands.

Headline earnings

Headline earnings for the year ended 30 September 2009 of R779,3 million (2008: R668,8 million) reflect an increase of 16,5% over the prior year. At the headline earnings per share (HEPS) level, this translates into an increase of 16,1% to 450,0 cents (2008: 387,6 cents), based on 173,2 million (2008: 172,6 million) weighted average number of shares in issue for the year.

The increased number of shares in issue in 2009 relate to the exercising of share options by current and former employees of Adcock Ingram, Tiger Brands Limited and The Spar Group Limited, under equity settled option schemes inherited from Adcock Ingram's former parent company, Tiger Brands Limited. Approximately 2,1 million options remain outstanding under these schemes, and these are available for exercising on or before 1 September 2010, and expire on or before 1 September 2015, at offer prices ranging from R8,69 to R28,33 per Adcock Ingram share.

In this section

- *Financial results*
- *Financial position*
- *Cash and gearing*
- *Key financial ratios*

Headline earnings in the current year exclude capital profits of R3 million. There were no impairments of intangible assets in the current year (2008: R17,8 million). It should be noted that headline earnings in the prior year included the cost of a settlement reached with the Competition Commission in the business of Adcock Ingram Critical Care (AICC) amounting to R53,5 million. After adjusting for this abnormal item, headline earnings grew by 7,9%.

Earnings per share (EPS) improved by 19,3% to 451,7 cents (2008: 378,5 cents), somewhat more than the increase in headline earnings per share (HEPS) as a result of the impairment of intangible assets in 2008 reducing earnings in that year.

Turnover

Turnover rose 21,3% to R4,0 billion (2008: R3,3 billion) due to volume growth across the business of 12%, with price and mix making an equal contribution to the balance of the growth. The Prescription segment had an excellent volume increase, primarily through ARVs, and the Hospital division showed modest volume growth in a particularly tough trading environment. Over-the-counter OTC volumes were maintained year-on-year despite significant down-trading in this portfolio.

The turnover should be seen in light of the following:

- A price increase of 13,2% granted by the Department of Health in January 2009, the previous increase of 6,5% having been allowed in May 2008. The 2009 price increase was effective for the entire second half of the financial year in the Pharmaceutical division, where approximately 65% of sales are subject to SEP legislation. The Hospital division, with approximately 25% of sales subject to SEP, did not benefit fully from the price increase as discussions with the Department of Health on unit-based (per millilitre) pricing are still ongoing;
- A loss of tenders in the Pharmaceutical and Hospital divisions, reducing public sector sales across both segments (excluding ARVs) by approximately R30 million year-on-year;
- The loss of revenue after the legislated conversion of certain ephedrine-containing OTC brands to prescription-only products in April 2008. These contributed revenue of R21 million in 2008;
- Significant price erosion in Adco Simvastatin, the generic portfolio's second biggest product by revenue; and
- The loss of two significant agencies in the Hospital division which on a combined basis contributed R90 million to revenue in 2008.

On the positive side, the rollout of the Efavirenz state tender impacted turnover favourably and all indications are that Government will procure the full volume under this tender. Sales from Tender Loving Care (Pty) Limited (TLC), the acquisition concluded in the second half of the financial year, are not material, however, we expect personal care revenue under this brand to increase in future years as a wider range of products is introduced. Similarly, in the rest of Africa, the Pharmaceutical division's revenue in the current year has almost trebled, albeit off a very small base. The Pharmaceutical business also had the benefit of revenue amounting to R92 million from contract manufacturing despite this being at a very low gross margin. This contract terminated at the end of August 2009.

Profit margins

Gross profit increased by 11,7% to R2,0 billion (2008: R1,8 billion), while the gross profit margin declined from 55% in 2008 to 51% in 2009. The primary contributing factors for the reduction in margin were significant Rand weakness in the first half of the year, a change in the product sales mix with increased ARV sales, inventory impairments and the contract manufacturing business referred to earlier.

The effect of Rand strengthening and the price increase granted by the state was evident in the second half of the year as the gross margin improved from 49% in the first half of the year to 52% in the second half. This margin expansion was achieved across all business units with Prescription improving from 52% to 55%, OTC increasing from 56% to 59% and Hospital products moving from 39% to 41%.

The business remains vulnerable to Rand weakness with more than R900 million of foreign exchange purchases in 2009, of which 61% were US Dollar-based due to an increase in imports from India and China, and 35% were Euro-based. In the Pharmaceutical division, 73% of imports are exposed to the US Dollar whereas in the Hospital division the exposure is 53% to the Euro. Average forward rates in 2009 were R9,46:USD1 and R12:37:Euro1, however, with year end inventory levels having been purchased at approximate forward rates of R8,10:USD1 and R11,50:Euro1, the gross margins are relatively well protected for the majority of the first half of 2010. Gross margins in a AICC are also heavily dependent on raw plastic pellet prices, which despite being procured in local currency, are linked to the international oil price.

Operating income before abnormal items increased by 4% to R1,045 billion (2008: R1,005 billion), with margins reducing from 30,4% in 2008 to 26,1% in 2009, this loss of leverage being carried down from the gross profit line. Operating expenses increased by 21% to R992 million (2008: R818 million). Selling and distribution expenses rose by 15,5% to R422 million (2008: R365 million), measured as a percentage of sales as 10,5% (2008: 11,1%). Additional distribution costs during the start up phase in the new Midrand distribution centre and the establishment of a new sortation centre amounted to R14 million, half of which is expected to be a recurring expense. Other overheads, including marketing and research and development (R&D) expenses,. increased 25,9% to R570 million (2008: R453 million), 2009 being impacted by additional IFRS2 charges and incentives of R46 million, and expenditure of R13 million at TLC and Adcock Ingram East Africa, which are not in the 2008 base comparative.

Chief financial officer's report continued

Operating profit after abnormal items rose 11,9% to R1,045 billion (2008: R933 million), the prior year figures having been negatively impacted by abnormal expenses of R53,5 million in paying the Competition Commission fine, and intangible asset impairments of R17,8 million.

Finance costs, net of dividend income of R9,6 million (2008: R10,7 million), amounted to R8,1 million (2008: R25,9 million), inclusive of commitment fees. Net interest cover for the year is a very healthy 59 times (2008: 25 times).

Profit before tax grew by 14,3% to R1,037 billion (2008: R907,4 million). The effective tax rate is 23,8% (2008: 26,9%), the variance from the statutory rate being attributable to:

- the Strategic Industrial Programme (SIP) allowance of R29 million, translating into a tax benefit of R8 million. It is currently estimated that the SIP allowance of R458 million granted in the 2009 financial year will be utilised over four years with the bulk of the allowances being claimed in 2012;
- capital allowances and exempt income of R169 million; and
- reversal of a prior year over provision in the amount of R16 million.

offset by:

- non-deductible expenditure of R50,4 million; and
- STC of R11,4 million related to the maiden dividend declared in June 2009.

This resulted in profit after tax growing by 19,1% to R789,9 million (2008: R663,4 million). The share of profits attributable to minority interests decreased to R7,5 million (2008: R10,3 million), as a result of lower profits in The Scientific Group (TSG), where Brimstone Incorporated is the minority shareholder. Other minority shareholders in the group are European-based multinational companies, certain of whose products are marketed and sold by the Pharmaceutical division.

Financial position

Non-current assets

The carrying value of property, plant and equipment increased by R148 million during the year. Capital expenditure of R229 million was expansionary and regulatory in nature, primarily made up of:

- R67 million at Wadeville for the efficient and increased production of ARVs;
- R32 million at Clayville where the group's effervescents and powders capacity has been increased to 1,15 million kg per annum and ground has been broken on the high-volume liquids plant, which will take Adcock Ingram's oral liquid capacity to 14 million litres per annum; and
- R58 million at Aeroton where the Critical Care facility is being upgraded to meet international regulatory requirements.

The balance of the capital expenditure relates to completion of Adcock Ingram India's factory in Bangalore, the Midrand distribution and office facilities and the acquisition of office equipment, computers, furniture and fittings across the business. Regulatory upgrades and expansionary activities are continuing and it is expected that up to R555 million will be invested in fixed assets during the 2010 financial year. Eighty percent of this expenditure has been designated on an almost equal basis to Clayville's high-volume liquids facility and Aeroton's regulatory upgrade.

Intangible assets, net of amortisation of finite-life assets, increased by R82 million to R304 million. The group acquired the TLC business with effect from 2 April 2009, with the balance of the purchase price in excess of the net asset value allocated to the TLC trademark (R65 million) and goodwill (R15 million).

Working capital

Inventory levels of R584 million at year end were R17 million higher than the prior year, but R33 million down since March 2009. Days in inventory are 105, significantly improved by almost 25 days when compared to September 2008, and a small reduction on March 2009. This improvement in inventory turn is evidence of better visibility for inventory forecasting now that the Bangalore facility is fully operational and that upgrades to Clayville and Wadeville are substantially complete. This is further facilitated by the recent implementation of a new demand planning system. The group's target of 100 inventory days remains in place.

Trade accounts receivable, net of provisions, are R937 million at year end and R247 million higher than the prior year. Whilst the absolute balance has increased, the outstanding debtors' days at year end are 62, a slight improvement on the prior year, September having been the largest sales month in 2009. Credit control across the group remains good, although there is some evidence of financial stress in minor elements of the customer base with bad debt write offs of less than R1 million in the year under review. Adcock Ingram's Pharmaceutical division continues to extend 60-day terms to its private sector customers.

Trade accounts payable, including accrued expenses and provisions, increased by R126 million to R700 million, with days outstanding at 60. The current ratio remains healthy at 2,5 times (2008: 2,4 times).

Cash and gearing

Operating profit before working capital increased by 15,5% from R1,02 billion to R1,18 billion. Working capital requirements discussed above absorbed R46 million, leaving cash generated from operations of R1,13 billion, a significant improvement over the prior year's figure of R741 million.

After interest, taxation and dividend outflows, there was a net cash inflow of R754 million (2008: R439 million).

The significant outflow in investing activities of R327 million (2008: R280 million) relates primarily to the production facilities discussed above. In addition, the acquisition of TLC, a minority stake in Batswadi Biotech, which represents Amgen in South Africa, and purchases of brands accounted for net cash outflows of R90 million.

The group generated net operating cash inflows of R427 million, funding Adcock Ingram's normal capital expenditure programme. Financing activities accounted for net cash outflows of R129 million as two further payments were made to service the secured loan for which the final instalment is due in October 2010.

Outside of overdraft balances, which are offset against surplus cash balances on a daily basis, the group is carrying gross interest bearing debt of R311 million (2008: R439 million). R270 million (2008: R408 million) of this debt is owed to a South African financial institution, bearing interest at 15,5% per annum and will amortise with six monthly capital and interest payments ending in October 2010. The remaining interest bearing borrowings of R41 million (2008: R31 million) have been incurred in Adcock Ingram India Limited, raised to fund the capital expansion programme completed at the end of the 2008 calendar year. The loan bears interest at 0,25% below the State Bank of Hyderabad's lending rate and is being serviced in 20 quarterly instalments which commenced in December 2008.

The group had adequate cash reserves of R693 million at year end (2008: R395 million) and is ungeared with a net cash position of R381 million (2008: net debt of R44 million). The group has R500 million of aggregate available unutilised short-term facilities with two South African financial institutions to service ongoing operational requirements, and has capacity for gearing in order to invest in its pipeline and product portfolios, and continue to implement its growth strategy. The group has retained its investment grade status with the major South African financial institutions.

In light of the potential funding needs of Adcock Ingram's strategic initiatives, the group has elected to fund the Clayville high-volume liquids facility and Aeroton upgrade through borrowings. Consequently an agreement has been entered into with our financiers for two capital expenditure facilities amounting to R800 million in aggregate. The terms of the loans, which are being drawn down in accordance with the planned expenditure at the relevant sites are:

- R290 million with a two-year bullet term, servicing only interest in the two-year period at JIBAR plus 230 basis points and R510 million with a two-year capital holiday, bearing interest at JIBAR plus 265 basis points and amortising thereafter for an additional two-year period;
- interest on both loans is to be serviced quarterly in arrears; and
- both facilities are subject to normal commercially negotiated raising fees and certain security and financial covenants.

Looking forward, the group should retain the momentum established in the last quarter of 2009 through relatively favourable exchange rates coupled with the benefit of the SEP increase in the Pharmaceutical division. However, elements of consumer spending remain depressed, evidenced by down-trading to lower priced products and the demand for smaller pack sizes, both of which resulted in less favourable gross margins for the group.

Key financial ratios

	2009	2008
Gross profit (%)	**50,9**	55,2
Operating profit (%)	**26,1**	30,4
Inventory days	**105**	130
Accounts receivable days	**62**	63
Accounts payable days	**60**	55
Working capital per R1 turnover (cents)	**30,0**	28,0
RONA (%)	**61,8**	76,7
Net interest cover (times)	**59**	25
Current ratio (times)	**2,5**	2,4

Conclusion

Adcock Ingram's first full year of independence has been an exciting period, with good strategic progress having been achieved. Our resolve to continue to build Adcock Ingram into a leading world-class branded healthcare company has been strengthened and we are well positioned to fulfil elements of the strategy in 2010.

I am indebted to our shareholders, advisers, board members, and fellow employees with whom I am privileged to serve Adcock Ingram, for their support during the year.

Sincerely,

Andy Hall
Chief Financial Officer

Operational review – PHARMACEUTICALS

About the division

The Pharmaceutical division manages a comprehensive portfolio of branded and generic prescription medicines across various therapeutic categories, as well as a selection of branded over-the-counter (OTC) products. During the year under review, Adcock Ingram held first place in OTC medicines in South Africa and was second in prescription generics. The business also holds second place amongst local pharmaceutical companies in the fast moving consumer goods (FMCG) sector.

Operational highlights

- *Adco-Dol breaks R100 million*
- *Panado breaks R200 million*
- *Synap Forte becomes 5th biggest pharmaceutical brand*

BILL TWEEDIE
Managing Executive
– Pharmaceuticals

Value growth

SYNAP FORTE	29%	CITRO-SODA	32%
ADCO-DOL	21%	Gen-Payne CAPSULES	55%
lentogesic	19%	Adco Efavirenz	45%

(Source: IMS – Sept 2009)

KUBEN PILLAY
Executive – Strategic Trade,
ARVs & Public Sector

Overview

The financial year under review was a testing one for the Pharmaceutical division, not only due to the economic slowdown, but also as a result of operational challenges experienced within our supply chain infrastructure. Stock availability and our ability to maintain consistent service levels to our customers were some of the issues with which we had to deal decisively during the first half of the financial year.

Our new Midrand-based distribution centre, which began operations in November 2008, is now fully operational and service has returned to normal levels.

On the back of sterling performance from antiretrovirals (ARVs) and branded prescription products, augmented by the single exit price (SEP) increase, sales rose to R2,8 billion which is 29,4% higher than 2008. (R2,1 billion) Operating profits increased by 9% to R824 million (2008: R754 million).

For most of the reporting period, prices of Active Pharmaceutical Ingredients (API) remained relatively high, although prices did begin to show a downward trend towards the end of the year.

Our programme of factory upgrades is well underway. The upgrades to our Clayville and Bangalore plants were completed during the year, and that at our Wadeville plant will be completed early in 2010. These upgrades, in accordance with PIC/S (Pharmaceutical Inspection Convention and Pharmaceutical Co-operation Scheme), WHO (World Health Organisation) and USFDA (United States Food and Drug Administration) standards, will allow us to increase our production capacity to meet customer needs.

By the time all construction and restructuring of manufacturing operations have been completed in 2012, all Adcock Ingram plants will conform to international standards and should provide sufficient manufacturing capacity for at least another decade.

Review of operations

The Pharmaceutical business is managed strategically as two separate businesses – Prescription and OTC. All services are shared to ensure that synergies are achieved throughout the business.

Over-the-counter (OTC)

The OTC business has a wide range of consumer brands distributed via the FMCG channel and an established portfolio of premium and economy brands which are marketed through the pharmacy channel. During the year economic conditions impacted consumer spending patterns in both Pharmacy and FMCG channels, with the latter being hardest hit. Consumers have shown a tendency to self-medicate with more effective OTC products only available in pharmacies, rather than buying Schedule 0 products from conventional retail outlet. This is evident in the volume decline in the FMCG channel, more specifically in analgesics.

In addition, when self-medicating, consumers have tended to buy smaller pack sizes or down-trade to cheaper brands, particularly within the mid-LSM bands. Notwithstanding these trends, Adcock Ingram's strong, established brands have held market share in both the FMCG and pharmacy channels.

Adcock Ingram continued to invest in the OTC Training Academy where over 2000 pharmacists and pharmacy assistants have benefited from independent clinical and commercial training.

Prescription

The Prescription business is split between branded and generic products.

Branded

Branded prescription products performed solidly during the year, gaining market share against global competitors. Sound strategies were developed and are currently being rolled out into the market to ensure further traction from the solid foundations already established.

Scientific symposia through thought leadership programmes have been introduced to further entrench the company's image with prescribing health care professionals and demonstrate the company's commitment to investment in continued medical education. Earlier in the year, Adcock Ingram hosted South Africa's largest General Practitioner (GP) Summit, which was fully accredited by the Health Professions Council of South Africa. More than 300 GPs in attendance were exposed to a range of presentations delivered by key opinion leaders from various therapeutic disciplines. Due to the overwhelming positive response to this event, we will continue to invest in annual summits of a similar nature.

Operational review – PHARMACEUTICALS continued

Baby Care Range

FMCG presence increased with the launch of new products from TLC

Generics
The success of this business is dependent on range, availability and cost. During the year under review, aggressive pricing has resulted in the value erosion of certain significant generics in the private market. This trend is likely to continue as more competitors enter this market with little or no differentiation.

Major opportunities do, however, exist in the public sector general tender and ARV markets, and the Efavirenz tender award in favour of Adcock Ingram in mid 2008 contributed significantly to the performance of our Generics business. Competitive API prices, secured tender volume, and a focused drive to have stock readily available, placed Adcock Ingram in a favourable position with public sector procurers.

Antiretrovirals (ARVs)
In this past financial year, Adcock Ingram agreed to considerably increase production of ARVs in response to Government's decision to intensify its distribution of ARVs to HIV positive patients. This was against the background of Adcock Ingram's own manufacturing plants undergoing extensive upgrades. We are pleased to report that Adcock Ingram was able to increase production to meet the higher volumes required and continued to deliver within the agreed time-frames. We are now also building up stock of ARVs to ensure adequate reserves against further spikes in demand.

The current ARV contract expires in May 2010 and Government is expected to issue tender documents early next year for the next two year contract. Adcock Ingram will participate in this tender process.

With the significant policy shift announced by President Zuma on World AIDS Day, 1 December 2009, we anticipate that South Africa's ARV requirements are expected to grow in excess of 25% per annum. Further, Adcock Ingram already has a presence in certain African markets. Based on our internationally accredited production facilities and our competitive prices, we intend expanding our product offering to other markets where a need exists.

Adcock Ingram's ARV development is generally undertaken in our own R&D facilities. However, our latest products are based on new generation molecules licensed from our international partners. These new molecules have been formulated into a range of new Adcock Ingram ARV products that are currently awaiting registration with the MCC. We anticipate that these will be registered and in production by the commencement of the new ARV tender in 2010.

Growth into Africa

In March 2009, Adcock Ingram launched the Adcock Ingram East Africa operation. Based in Nairobi, Kenya, the office currently has 20 employees, mainly sales staff, who service health professionals and promote Adcock Ingram products in the region. This office will serve as the hub for expansion into East Africa – initially Kenya, then Tanzania, Ethiopia and other neighbouring states.

The group also acquired a popular Kenyan analgesic OTC brand, Dawanol, as an entry into the East African FMCG market. Marketing and distributing of the Dawanol brand will provide useful on-the-ground insights for further introduction of other Adcock Ingram products into this market.

TLC
CAMPHOR CREAM
Herbal
TLC
CAMPHOR CREAM
Original

Adcock Ingram's FMCG presence increased with the launch of the new products from TLC

In November 2009, Adcock Ingram made an offer to acquire a minimum of 51% of the shareholding in Ayrton Drug Manufacturing Limited (Ayrton), a pharmaceutical company listed on the Ghanaian stock exchange. Ayrton manufactures a wide range of pharmaceuticals which are distributed in the form of tablets, syrups, capsules, powders, ointments and creams.

The rationale for the transaction includes the opportunity for Adcock Ingram to introduce a range of products into the Ghanaian market, ensuring a smooth entry into West African markets through the established local marketing, sales and distribution capabilities of Ayrton. There would also be an opportunity to leverage Adcock Ingram's global supply chain network into the region. Significant scope also exists in respect of the introduction of Adcock Ingram's ARV range into West Africa.

Growth into Adjacent categories

Adcock Ingram re-entered the Personal Care market by purchasing the business of Tender Loving Care (TLC) in April 2009. Its subsequently launched a camphor cream and baby care range in September 2009. This acquisition facilitates incremental growth in OTC and embraces the OTC strategy of moving into adjacent categories and increasing the presence in the FMCG market, both in South Africa and other selected African markets.

Adcock Ingram also acquired Unique Formulations, a Cape Town based business specialising in the supply of vitamins, minerals and supplements (VMS). This acquisition complements our existing portfolio of energy and weight management supplements and assists in gaining a foothold in the broader complementary medicines market.

The VMS category is enjoying strong growth in both the FMCG and Pharmacy channels due to the global trends of increasing consumer awareness and of more consumers taking responsibility for their own wellbeing.

UNIQUE
Omega 3:6
1000mg
UNIQUE
Omega 3:6

VMS presence increased with the acquisition of Unique Formulations

Outlook

The increased capacity created through our factory upgrades establishes a secure platform for future expansion in Southern Africa and further afield.

Adcock Ingram will continue to invest in its brands and pipeline through the acquisition of dossiers, research and development and partnerships with multinational companies seeking representation in Africa. The group is well positioned to take advantage of the economic upturn and anticipates robust growth in the years ahead.

Operational review – HOSPITAL PRODUCTS

Operational highlights

- *AICC currently treats approximately 52% of all renal patients in the country*
- *Granisetron and Midzolam registered*
- *AICC added a new array of oncology products*

KYM ROWAT

Managing Executive – AICC

Turnover by division

	2009 R'm	2008 R'm
AICC	947	843
TSG	302	328
	1 249	1 171

SHAWN LANDMAN

CEO – The Scientific Group

Products and equipment supplied by this division.

The Hospital Products division comprises Adcock Ingram Critical Care (AICC) and The Scientific Group (TSG).

Adcock Ingram Critical Care

Market backdrop

AICC is a major supplier in the hospital products market and operates in both the private and public healthcare sectors in the Southern African region.

The performance of AICC's Hospital Products division is sensitive to a number of local and international issues, including negative currency fluctuations that impact raw material purchases, inflation and local medicine pricing controls. About one third of the hospital products' revenue is exposed to SEP and is therefore subject to pricing control.

Operations overview

Margin erosion experienced across the product range was attributable to various factors, including the delay in getting approval of the 13,2% SEP increase on some of its pharmaceutical range, where the dosage forms are the same, but the pack factors are different. As a result, cost increases could not be offset against product price increases. Adcock Ingram is currently in consultation with the Department of Health on a 'per unit' (millilitre) pricing structure to address this issue.

South Africa's private hospital sector continued to reflect organic growth, mainly against the backdrop of increases in admissions, hospital beds and bed utilisation. Key growth drivers were intravenous (IV) fluids, formularies for IV antibiotics and higher numbers of patients with end-stage renal disease.

The public sector proved to be less robust, with budgetary constraints, chronic shortages of all healthcare professionals and delayed capital expenditure in some provinces.

The full impact of the loss of public sector tender business for IV fluids was realised during this period. In the event that AICC is awarded a portion of the 2010 national tender, due to be issued in January 2010, the situation is likely to improve.

AICC delivered a 4% volume growth when compared with the corresponding period last year.

Factory upgrade

The board of Adcock Ingram approved a R292 million capital expenditure programme for the upgrade of AICC's manufacturing facility in Aeroton, Johannesburg. The project will see AICC attaining compliance with the international Pharmaceutical Inspection Convention and Pharmaceutical Co-operation Scheme – jointly referred to as PIC/S – standards adopted by the South African Medicines Control Council (MCC).

Meticulous planning has gone into this project to ensure that product supply will not be interrupted. The upgrade is progressing according to plan, as evidenced by the timeous completion of the dedicated Small Volume Parenterals (SVP) facility that will house Blow Fill Seal equipment.

With the assistance of an independent company, AICC's rigorous validation of its upgraded facilities is also under way, with one area in the SVP facility already fully validated and in production since July 2009. Completion of the validation process for the remainder of the SVP area is expected at the end of December 2009.

With regard to labour relations, AICC's management has engaged in proactive dialogue with the recognised trade unions to negotiate leave allocations which accord with business needs and will not affect production output, while AICC strives to complete construction of the Aeroton facility.

AICC manufactures under licence to multinational Baxter Healthcare (Baxter), which develops, manufactures and markets products for the treatment of haemophilia, immune disorders, infectious diseases, kidney disease, trauma and other chronic and acute medical conditions. Baxter has been extensively involved in all stages of the planning of the upgrade and will continue its participation throughout the construction period.

Review of operations

AICC continues to operate in a broad sector of the hospital products market, including renal dialysis systems, a comprehensive range of ostomy and wound care products, blood bags, intravenous fluids, accessories and surgical consumables.

Renal therapies

AICC's renal operation contributes approximately one third of AICC's turnover. The division reflected an 8% volume growth compared to last year. This growth can be attributed to various factors, not least of which is our competitive advantage in this market due to our home-delivery service. AICC currently treats approximately 52%

Operational review – HOSPITAL PRODUCTS continued

AICC staff delivering home-dialysis products to one of our patients

of all renal patients in the country and is the only company in South Africa to offer a dedicated home-delivery facility to all areas, including rural and informal settlements thereby allowing patients to perform dialysis at home.

A portion of AICC's new pipeline of renal products is set to come on-stream in December 2009. This is predominantly a range of pharmaceuticals, utilised in the treatment of complications during end-stage renal disease.

In terms of exports and increasing our footprint into the rest of Africa, dialysis product services reflected a 45% growth. Whilst growing off a low base, the upward trend is as a result of the recognition of the increasing value of dialysis on a continent where under-dialysis has been a persistent phenomenon. This upward trend is likely to continue.

Blood Transfusion Therapies division

AICC has been a key partner and supplier to the South African National Blood Service (SANBS) for many years. With the country currently facing an ageing blood donor base, it has become increasingly important to educate the population about the importance of regular donation. The Blood Transfusion Therapies division has realigned its relationship with SANBS through a new, collaborative business model. AICC sponsors specific SANBS events and programmes and provides resources to support blood drives. As a result of our efforts to address this challenge, SANBS reported an overall 12% increase in the donor base.

Strategic alliances: Baxter Healthcare

The relationship with Baxter remains mutually beneficial with the 15 year agreement, plus the call option as published at the time of listing, in place. In addition, AICC sources some of its products from other multi-national pharmaceutical companies.

Business development

The generic injectables range is an area of ongoing growth. A range of intravenous antibiotics and drugs – introduced over the past three years – has achieved substantial market share and AICC plans to continue expanding the product offering in this portfolio. The new lines include Granisetron, registered at the end of September 2009, and Midazolam. AICC has also added a new array of oncology products, which will provide significant revenue opportunities as they enter the market in the new financial year.

Renal sector research indicates that 60% of kidney disease sufferers in SA are untreated, which presents a substantial opportunity for growth, including the opportunity for expansion into Africa.

The Scientific Group (TSG)

Founded in 1983 to provide instrumentation and consumables to pathology laboratories, in the 25 years that followed, TSG has added product lines and services to its offering, to become one of the South African leaders in its market segment. Key growth areas at present include chemistry and haematology, rapid diagnostics, molecular diagnostics and high technology medical equipment. With the Department of Health's ARV roll-out programme growing by 20 to 25% per annum, the demand for TSG's HIV diagnostic products is increasing exponentially.

In 1999 the Brimstone Investment Corporation acquired a 26% shareholding in TSG in one of the earliest BBBEE deals in the healthcare sector. Six years later, in 2005, Adcock Ingram acquired its remaining 74% shareholding through the Hospital division.

In September 2009, TSG moved from its previous premises in Waterfall Park to the main Adcock Ingram administration and warehouse complex in New Road, Midrand. This shift has integrated TSG's workforce into the Adcock Ingram corporate culture and is significantly improving efficiencies by reducing rent payments and linking the business directly into group infrastructure, IT systems and its central warehouse.

Overview of the year

Our overall result reflected a fall in turnover of 8%. The decline in turnover was due to our largest agency deciding to cancel TSG's agency agreement following the unbundling from Tiger Brands. However, when excluding the impact of the lost agency described above, TSG's strong organic growth of the last three years has continued on the core product ranges.

Review of operations

TSG presently comprises three sales divisions and a service division.

Clinical Diagnostics division

This division's primary business is to supply clinical diagnostic equipment and consumables to laboratories in the public and private sector. The single biggest client at this time is the National Health Laboratory Service which has over 240 laboratories. Other services include haematology and chemistry. Diagnostics also has an export unit providing laboratory solutions and offering on and off-site application training and technical support across sub-Saharan Africa.

Our chemistry and haematology product ranges produced year-on-year growth of 37,5% and our export department expanded its growth by 27%. Our CD3 and CD4 HIV screening products are performing increasingly well as the South African government ramps up its ARV distribution initiatives.

Our 14 years of marketing and distributing blood collection tubes has given the Diagnostics division a deep understanding of this market, therefore we have re-entered it by launching our own TSG range of blood collection tubes, called SG Vac. These are currently on trial with the NHLS and through our export unit are starting to sell into other African countries. With our extensive localised knowledge and distribution system, we expect to steadily regain a significant share of this market.

Bioscience division

This division supplies specialised biotechnical equipment and consumables to research institutions and laboratories, particularly those located at South Africa's universities and Research Institutes.

This division's revenues are highly dependent on the funding provided to universities and research units. The economic recession meant that new research projects were curtailed or scrapped, and purchases of new equipment were halted as research funds dried up.

Medical division

This division provides specialised medical equipment and consumables for hospital medical environments such as intensive care and high care wards. A wide and complementary range of equipment is imported from the world's leading manufacturers, including ventilators and patient monitoring apparatus, cardiac perfusion equipment and consumables, theatre beds and lights, as well as imaging equipment.

Currently its major ranges are the Terumo cardiac perfusion equipment (heart lung machines) and Maquet ventilators. The Medical division performed adequately during this period, however, its results were negatively impacted by the delayed tender and procurement processes of the Gauteng Department of Health.

Service division

We are well aware of our responsibility to ensure that critical care equipment must always remain functional, as lives are at stake. We accordingly operate the largest critical care service division in South Africa, with fully trained service technicians and engineers available on a full time basis. Assistance is offered throughout South Africa as well as in various African countries and the Indian Ocean Islands.

Africa

The past few years has seen an increase in the availability of donor funding for healthcare and infrastructure projects in Africa. This has led to increased demand for TSG products, in particular our clinical diagnostic equipment. For instance, we have already sold more than 500 clinical diagnostic instruments to Zambian medical laboratories, and have stationed two full-time technicians directly in the territory.

Looking towards the future, we believe that opportunities for export within sub-Saharan Africa exist in the medium term.

Business endurance report

Our people

Adcock Ingram is a people-centric organisation. Performance management, collegial culture, learning and development initiatives and shareholding are just some of the ways in which we encourage and inspire our employees to develop to their full potential.

We recognise that continuous improvement is required in our people management practices and processes to ensure that we attract and retain the best talent. Our culturally diverse workforce reflects the richness and uniqueness of the countries in which we operate.

Our staff headcount fell slightly from 1826 in September 2008 to 1802 in September 2009 due to organisational restructuring within certain business units. On the positive side, the numbers of Blacks (Africans, Coloureds and Indians) in managerial positions increased from 362 to 418, which reflects a 15,4% increase from the previous year. The number of women in managerial posts increased from 185 to 210 – a 13,5% improvement.

Adcock Ingram remains committed to creating a compelling employee value proposition. We firmly believe that our long-term sustainability is dependent on meeting and surpassing our employees' expectations regarding learning and development, leadership, remuneration, stretch assignments, just employment practices, career development and employee wellness.

Leadership is paramount in building a vibrant organisational culture. Adcock Ingram's Leadership Charter addresses performance, authentic communication and challenges any residual silo mentality in our business units. Leadership development initiatives and the associated mentoring programme are showing encouraging results, with feedback from participants indicating that these initiatives are developing employee skills around customer centricity, continuous improvement and operational excellence.

Our company culture is built on our values, which serves as a glue that binds Adcock Ingram together. At Adcock Ingram we value Passion, Respect, Innovation, Development and Execution.

Having recently received the results from our entry into the prestigious 'Best Company to Work For' awards, we will utilise the outcome of this annual survey to inform us in improving our people management practices, with the purpose of retaining employees to keep the depth of skill and talent required to achieve Adcock Ingram's long-term strategic objectives.

Workforce metrics

	2008	2009
Total headcount	1 826	**1802**
Per business entity		
Group	144	**149**
Pharma	990	**959**
Critical Care	544	**548**
TSG	148	**146**
Women		
Women employees	493	**483**
Women managers	397	**407**
Age profile		
< 26 years old	102	**119**
26-35 years old	350	**369**
36-45 years old	546	**516**
46-55 years old	632	**593**
> 55 years old	194	**205**
Length of service		
< 3 years	447	**512**
3-5 years	206	**209**
6-10 years	245	**261**
> 10 years	928	**820**
Unclassified	–	**–**
Disabled employees		
Female	3	**4**
Male	3	**3**

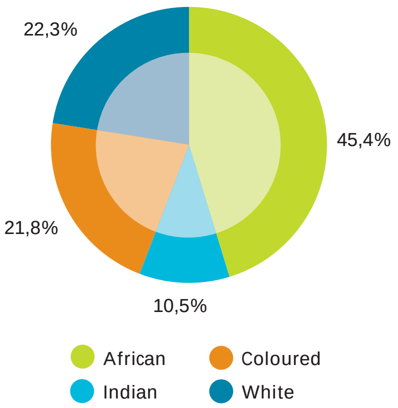
Talent acquisition and retention

Adcock Ingram has managed to fight the effects of the war for talent by refining our remuneration philosophy, learning and development interventions, study assistance schemes, comprehensive benefits, short-term and long-term incentives and creativity an enabling culture. Adcock Ingram's Human Capital team regularly conducts 'health check' interviews to determine and assess push and pull factors for employees. These 'health check' interviews include exit interviews, post-placement interviews and retention discussions.

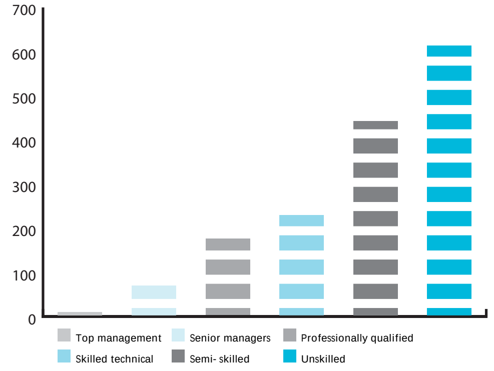
Talent development

During the year under review, our commitment to our employees was confirmed by the 1,53% of our payroll we invested in learning and development. In managing employee learning, development and growth, we carefully diagnose skills, knowledge and attributes, to ensure sustained levels of competence. In addition permanent employees are offered bursaries for courses leading to qualifications relevant to the needs of Adcock Ingram.

Trained by race



Trained by occupation level



Milestones – 2009

- Launched Motheo – Employee Perceptions Survey
- Launched the EDP
- On-Boarding Programme
- Policies Procedures – Revised and enhanced
- Mentorship Programme
- Profit Incentive Scheme
- Performance Management System – Balanced Scorecard
- BBBEE Scorecard – Transformation
- Phantom Shares
- Long Service Awards
- Roll-out Disability Programme
- Learnerships and Internships
- Relocation to Midrand – reimbursed employees for petrol costs
- Business travel reimbursement cost increased
- Graduate Development programme
- Bursaries
- Market Related Salaries – Benchmarks
- Leadership Charter
- Health Check Interview
- Employee Share Option Scheme
- Executive Wellness Programme
- Values Embedment
- Roll-out of Human Capital Oracle System

Talent bank: Creating a cadre of employable people

Realising that we operate in a society with scarce skills, Adcock Ingram has embarked on a programme of developing a ‘talent bank’, which entails a multi-pronged strategy of building talent through internships, mentorship, bursaries and executive development programmes. This talent bank is intended to address the transformation needs of our business while also providing a consistent supply of skills needed in the healthcare sector. In this regard, the Graduate Development Programme was introduced to provide a talent pool for supplying priority skills.

Learnerships and Internships for the Unemployed

Part of our human capital development strategy focuses on developing the unemployed through learnerships, internships and graduate development programmes. These are key aspects of our concerted effort to create a talent pool for our business and the broader pharmaceutical sector. The total spent on learnerships for the unemployed amounted to R1,9 million

Adcock Ingram employees participating in wellness programmes in 2009

Business endurance report continued

Executive Development Programme (EDP)

Adcock Ingram introduced the EDP in partnership with the renowned Gordon Institute of Business Science. On 30 April 2009 an initial 34 Adcock Ingram senior managers assessed as having sufficient potential commenced training modules that focused on the following themes: Competitive Advantage; Integration; Globalisation; Performance Management; Customer Centricity; Knowledge Management and Acquisitions.

Employee wellness

The Adcock Ingram's Health and Wellness Programme was implemented to proactively identify, treat and manage a wide range of health and wellness issues, from primary care and occupational injuries to chronic disease management, including HIV and AIDS.

Some of our wellness initiatives include:

- Blood donation by employees;
- Executive Wellness Programme;
- Health Risk assessments; and
- Voluntary counselling and testing services for HIV and AIDS

Performance management

We are an output driven organisation, we value our employees' progress and therefore rely on a robust performance management system which encompasses goal setting, monitoring and reviewing on a quarterly basis. Employees are reviewed regularly against their specified goals and are provided with constructive feedback which helps support their performance. Our Adcock Ingram performance management philosophy is focused on encouraging our people to develop to their full potential. We offer relevant training and development programmes to enable employee development.

Effective performance management processes aim to ensure that individual output and behaviour, as well as business unit performance, are aligned with our strategic and financial objectives.

Remuneration framework

Our remuneration philosophy is a key principle of our people management strategy. We support a "pay for performance" philosophy through creating a high performance culture, integrated across business entities, aligned with organisational, team and individual strategies and goals. We manage differentiation, reward contributions and focus on continuous improvement.

Remuneration principles

Our objectives are	Pay principles
• To attract, retain, motivate and inspire individual employees • To strive to inculcate a culture of performance by aligning pay to performance • To strive to be an employer of choice and live our vision of becoming a recognised leading world class branded healthcare company. • To encourage employees to remain engaged and focused on achieving our business objectives • For Adcock Ingram to achieve adequate returns on our investments.	• For comparative roles, we aim to be at the market median for guaranteed pay, and for top performers we aim to be at or above the market median of the relevant market. • To ensure that there is internal pay equity across similar positions in the company. • Pay is in accordance with previous experience, skills and competencies. • Substantial recognition is given to employees for living the Adcock Ingram PRIDE values.

Facilities audits and new product development

Although medicines are intended to save lives and heal ailments, incorrect or contaminated formulations can have unintended adverse consequences. As a result, the business of pharmaceuticals and medicines is highly regulated and becoming even more so, with governments and international accreditation bodies issuing increasingly stringent regulations.

Regulation began in earnest in the 1960s, largely as a response to the drug thalidomide, which caused babies across the world to be born with physical deformations.

Large-scale pharmaceutical manufacturers of today, such as Adcock Ingram, are compelled to control their production processes through rigorous total quality management (TQM) systems that enable tight end-to-end command of all processes, including product development, manufacturing, warehousing, distribution and supply to consumers.

Our group quality assurance team has inspected 45 sites involved in our supply process, including international sites in Spain, India, China and Europe. These included wholesalers and manufacturers of raw material and product packaging.

Product manufacture

All products from Adcock Ingram's manufacturing plants go through stringent quality control processes that include:

- All ingredient handling and product manufacture taking place in specifically designed highly controlled and/or sterile environments that are constantly cleaned, inspected and maintained to the highest standards;
- Testing all raw materials and ingredients before production;
- Product analysis during all production stages; and
- Thorough final testing before the product is released.

An internal compliance management process targets safety, quality, efficacy and compliance with exact product specifications.

Imported product release

Imported products undergo rigorous analysis before being released to the market. The industry benchmark of three days to release imported products was achieved through Six-Sigma methodology, resulting in much improved supply chain management. The UPLC technology recently introduced in all group laboratories has already delivered a pleasing return on investment (ROI).

Control and disposal of expired pharmaceuticals

Expired products are pulled from the shelves in the distribution centre three months before expiry date. All expired products are safely destroyed though incineration by an approved waste disposal company on our behalf, under supervision of Adcock Ingram personnel.

New product development

Adcock Ingram stocks its pipeline of products with licensed pharmaceuticals from international pharmaceutical corporations, complemented by the group's own-developed prescription, generic and complementary medicine lines. Our current pipeline to 2013 has more than 300 new dossiers, complemented by 340 products earmarked for our expansion into the broader African market.

In the review period, 120 dossiers were submitted to the Medicine Control Council (MCC) for the South African market. At the same time 16 products were registered in various African countries. A further 28 products have been submitted to authorities in four countries, of which eight have already been recommended.

Adcock Ingram's WHO-accredited R&D facility uses cutting edge technology to grow the new product pipeline for Adcock Ingram while protecting the end consumer through a best practice Quality Management System that safeguards product quality, efficacy and – most importantly – safety.

Procurement

The procurement team evaluates areas of potential risk and runs opportunity analyses to determine areas of spend that could yield savings.

Preferential procurement

A key responsibility of the procurement department is to direct Adcock Ingram's preferential procurement programme, which aims at full compliance with the Department of Trade and Industry's guidelines for our sector. Our preferential procurement target for 2009 is 14 points, which we are confident will be achieved.

Adcock Ingram continually looks for new suppliers, particularly small or micro-businesses and woman-owned suppliers to add to its vendor base. These suppliers must offer quality products and excellent service as well as being in possession of valid BEE certificates.

We also encourage current suppliers to improve or obtain BEE credentials.

As pharmaceuticals and medical supplies are such tightly regulated industries, we often find suitable suppliers whose standards don't comply with industry regulations. In those cases we offer guidance and advice to assist them in upgrading to industry standards. This we do by sending in pharmaceutical compliance audit teams to evaluate their operations and to show exactly where their shortfalls are. Where suppliers display sufficient potential, we will perform several audits until they are able to comply.

Continuous improvement

In its commitment to continuous improvement, Adcock Ingram encourages the procurement department to expend up to 3% of the cost price of materials in seeking to improve quality or reducing prices.

Business endurance report continued

Information technology (IT)

The information technology (IT) function in Adcock Ingram is fully in-sourced, but supported by consultants and external service providers when required. Due to the complex nature of the pharmaceutical and medical supply sectors, as well as the constant investment required to support business growth, we consider it important to retain our highly skilled IT staff and attract new employees with the correct skill-sets.

Oracle E-Business

We are presently rolling out the Oracle E-Business suite to replace the various legacy and aging enterprise resource planning (ERP) systems. The financial, human capital and logistics applications have been implemented and we are installing the Oracle process manufacturing application in our factories.

We aim to streamline all operations and functions onto one fully integrated application environment that will efficiently support future business growth.

Our IT systems run on a robust infrastructure based on tier one technologies (Dell and Cisco), which provide stable support throughout the business. Further infrastructure enhancements are being implemented in line with the current upgrade of our factories. Replacement and new IT systems are checked for compliance with South African pharmaceutical and medical services regulations, as well as the stringent requirements of international accreditation bodies such as the USA's FDA and Europe's PIC/S.

Adcock Ingram wide area networks (WANs) and local area networks (LANs) are designed to minimise the risk of single points of failure, while disaster recovery plans are regularly reviewed.

In this next financial year the IT department will focus on implementing process manufacturing applications, further upgrading infrastructure and continuing to streamline and automate business processes.

Strategic planning and new business development

Strategy overview

Adcock Ingram offers a diverse array of products that include:

- Branded and generic pharmaceuticals;
- Life-saving hospital pharmaceuticals, medical devices and medical consumables;
- Over the counter (OTC) and fast moving consumer goods (FMCG); and
- Pathology services.

With a proud 120 year track record combined with a highly experienced management team and an abundant pipeline of products, Adcock Ingram's prospects for enduring future growth look promising. However, there is always room for improvement and for adding complementary services and categories to our existing offering.

Building market leadership

Adcock Ingram is currently expending over R1,2 billion to upgrade our South African and Indian manufacturing plants, while also revisiting all our business processes. Within the next year we will apply for accreditation of our upgraded manufacturing plants by recognised international agencies such as the USA's Food and Drug Administration (FDA), PIC/S and the World Health Organisation (WHO). This will help cement existing market share and enable future market expansion.

Acquisitions and partnerships

Intellectual property is the lifeblood of sustainability in healthcare. The Business Development team at Adcock Ingram is continuously identifying and evaluating businesses that can offer new or complementary products and technologies, as well as seeking adjacent healthcare categories to bolster our products and services range.

We are currently in a biotechnology partnership with Batswadi Pharmaceuticals and in this financial year acquired Tender Loving Care (TLC), which marked Adcock Ingram's re-entry into the Personal Care FMCG sector. Although not in the financial year under review, Adcock Ingram consequently acquired Unique Formulations, a vitamins, minerals and supplements (VMS) company .

During the past year we also acquired a Kenyan analgesic brand Dawanol and are actively looking for other suitable African acquisitions. Adcock Ingram has also entered the oncology sector with a first-to-market Granisetron generic.

New business development

Our forward planning is consolidated into five-year cycles, which corresponds broadly with an new product pipeline that spans three to five year cycles. This is in line with all new pharmaceutical products, which undergo a process of approval from initial application to final registration for public consumption in South Africa by the MCC.

In expanding into other markets, Adcock Ingram will adopt the proven strategy of utilising strong cash flows at home to make strategic and complementary acquisitions in other markets. Licensing appropriate products or technologies can be as profitable as acquiring businesses. Adcock Ingram's distribution network and large-scale, world-class manufacturing capability also makes us a sought-after partner for large multinational healthcare companies wanting to distribute their products without the need to establish their own African operations.

New product development

All Active Pharmaceutical Ingredients (APIs) are currently imported. Researching and developing new chemical entities or molecules is excetionally costly and is usually the preserve of global pharmaceutical corporations. Although Adcock Ingram does collaborate on developing products with research groups, particularly in India, our new products are largely acquired through licensing from multinationals, or developing generic alternatives to products for which patents have expired.

We actively seek to license or manufacture products that complement our current ranges. Another area we are exploring is more convenient drug administration, or novel drug delivery systems. These include tablets that literally 'melt in the mouth' and don't require water to ingest, or pre-filled syringes that can inject medication directly without needing a premix procedure.

Business endurance

People will always need medication and healthcare. A well-managed and reputable business such as Adcock Ingram, with its flexible operating model, can therefore weather business environmental changes.

While Adcock Ingram continues to source innovative products to add to our pipeline, maintains and upgrades manufacturing facilities and capacity to meet demand, the group should continue to prosper.

Our immediate future is encouraging. Demand for ARVs continues to grow, while South Africa's ageing population is expected to consume larger amounts of medication. As people become more medically aware and are able to access online health information, levels of self-medication through OTC products should rise.

Adcock Ingram is well positioned to tap into Africa and other attractive markets, which offer outstanding potential for revenue growth for decades into the future.

Recycling, waste management and resource conservation

In an effert to actively manage our carbon footprint, some of the following initiatives were implemented during the past year at our Midrand hub:

- the warehouse roof was insulated to reduce electricity consumption.
- low energy lights are extensively used.
- a Building Management System (BMS) was introduced to optimise and minimise power consumption.
- an energy efficient air conditioning system was installed in the warehouse, reducing energy consumption.
- borehole water and rainwater were used to flush toilets to reduce water usage.
- we also supplement the irrigation water with borehole water (supplied from the underground natural water system).
- all cartons and plastic from both the warehouse and office are sorted and end up in the recycling chain.
- the diesel tank installations have bund walls installed to contain any spillages.
- we are doing our share in brightening our environment by expanding the garden on New Road side (previously a barren piece of land with dumped waste lying around). This garden will also be irrigated.
- we use mostly more hardy plants in our gardens as it allows us to irrigate for shorter time periods and in turn conserve water.

New planned improvements include:

- installing a French drain system at the main gate in order to sustain the natural underground water supply.
- the fine tuning of the BMS system throughout the building.

Business endurance report continued

Transformation

In March 2009, Adcock Ingram announced its intention to facilitate the introduction of meaningful and sustainable BEE equity participation in Adcock Ingram. Adcock Ingram is committed to transformation through the introduction of broad-based BEE equity partners into its business to add to the significant progress it has made in the areas of, *inter alia*, employment equity, skills development, preferential procurement and enterprise development. The transaction is being implemented as part of Adcock Ingram's committed efforts to achieve the objectives set out in the Department of Trade and Industry's Codes of Good Practice (the codes) and in anticipation of future requirements of a Healthcare Charter.

Adcock Ingram has concluded a detailed transaction framework agreement that will facilitate the acquisition of an effective 13% of its issued share capital post the transaction by broad-based BEE groups. The transaction will be funded through a combination of equity from the BEE groups (other than employees) and facilitation from Adcock and will be implemented at the Adcock Ingram Holdings level. The intention is to issue a new class of share capital to the BEE Participants (as defined below).

Subject to the fulfilment of the conditions precedent Adcock intends to implement the transaction by the end of March 2010.

Rationale for the transaction

As a leading listed healthcare company in South Africa, it is Adcock Ingram's intention to embrace broad-based BEE equity participation as a key transformation initiative. Adcock Ingram was guided by the following key objectives in structuring and implementing the transaction:

- positioning Adcock Ingram as South Africa's leading empowered healthcare company;
- supporting Adcock Ingram's market position and growth strategies (in both the public and private sectors);
- enhancing Adcock Ingram's commitment to broad-based empowerment and transformation;
- enhancing healthcare in South Africa;
- maximising Adcock Ingram's equity ownership scorecard (in terms of the codes); and
- satisfying regulatory requirements.

BEE participants

The following BEE groups will participate in the Transaction:

- Kagiso Health Consortium and Kurisani Youth Development Trust (Kurisani) (collectively referred to as the strategic partners) will participate through one investment vehicle and will indirectly hold interests of 7,15% and 2,60% of Adcock Ingram's enlarged issued share capital respectively; and
- all permanent black (as defined in the codes) employees of Adcock Ingram and its South African subsidiaries will participate through an employee trust, which will hold a direct interest of 3,25% of Adcock Ingram's enlarged issued share capital.

Strategic partners

Adcock has selected the Kagiso Health Consortium and Kurisani as its strategic partners:

Kagiso Health Consortium

The two shareholders of the Kagiso Health Consortium are Kagiso Trust Investments (Proprietary) Limited (KTI), which owns 85,7% and Mookodi Technologies (Proprietary) Limited (Mookodi), which owns 14,3% of Kagiso Health Consortium. KTI and Mookodi will acquire effective equity interests of 6,13% and 1,02% of Adcock Ingram's enlarged issued share capital respectively.

KTI is a pre-eminent empowerment business grouping in South Africa, formed in December 1993 by the Kagiso Trust (KT) as a vehicle for generating long-term sustainable financial support for KT. KTI invests and manages capital for KT, promotes the advancement of black executives and participates in the transformation of the South African economy. As a BEE pioneer, KTI has evolved over the past few years into a strategic investor and active shareholder. KTI seeks to invest in businesses over which it is able to exert its expertise and influence.

KT is a leading non-governmental organisation established in 1986 by Archbishop Desmond Tutu, the late Dr Beyers Naudé and other clergy of the South African Council of Churches to finance and manage community development grassroots projects. KT is the largest black-led independent development agency in South Africa with national broad-based beneficiaries, the majority of whom are rural black women.

KT focuses on education, primarily funding and overseeing the implementation of education based programmes. Its current flagship project, the Beyers Naudé Schools Development Programme (BNSDP), focuses on key development projects at selected schools including infrastructure upgrades, designing of appropriate training programmes, curriculum and class management, development of leadership skills and sport and cultural activity programmes. There are currently more than 21 000 learners and 1 475 educators benefiting from the BNSDP.

KT also administers the Eric Molobi Scholarship Programme (EMSP) that funds learners from within BNSDP who show an aptitude for maths and science and who come from impoverished backgrounds. EMSP enables learners to attend university to obtain degrees in fields such as science and engineering. At present, there are 28 students in the EMSP.

Mookodi is a 100% black-owned company formed in 1999 that focuses on emerging business opportunities in the healthcare industry. Mookodi's primary objective is to target business opportunities in the promotion, marketing and distribution of pharmaceuticals, medical devices, diagnostics and disposable supplies in the South African healthcare industry.

Kurisani

Kurisani is the investment arm of loveLife. loveLife is South Africa's national HIV/AIDS prevention campaign for young people and provides services and outreach programmes to protect and develop young people across South Africa. loveLife implements international best practice in behavioural change programmes. loveLife combines well-established public health techniques with innovative commercial marketing approaches to promote healthy living to young people. loveLife's programmes are implemented in partnership with the South African Government across 850 hubs, which include 500 government clinics across South Africa and 130 community-based non-government organisations as well as 5 600 schools, extending loveLife's reach into towns, villages and rural areas across the country. loveLife has management offices in 30 locations with 7 000 youth volunteers who implement loveLife's programmes annually and up to 100 000 youth participants per month passing through its programmes.

loveLife has evolved into one of the most significant and relevant youth HIV/AIDS awareness and prevention efforts worldwide. Moreover, loveLife has developed into one of the largest youth development initiatives in South Africa.

Employee participation

25% of the transaction has been set aside for black South African employees. All permanent black employees of Adcock and its South African subsidiaries, including such employees who are on secondment outside of South Africa, will be eligible to participate in the Transaction (Adcock Ingram qualifying employees).

The total value of the transaction is R1,321 billion, based on the 10-day volume weighted average share price (VWAP) of R50,91 per Adcock ordinary share on the JSE Limited (JSE) as at the close of trade on 19 November 2009.

Post the implementation of the transaction, the effective participation of the BEE participants in Adcock will be as follows:

	Number of Adcock A-shares (m)	% of Adcock post the transaction	% of the transaction	Market value* (Rm)
Kagiso Health Consortium	14,3	7,15	55	726,5
Kurisani	5,2	2,60	20	264,2
Employee Trust	6,5	3,25	25	330,2
Total	**26,0**	**13,00**	**100**	**1 320,8**

Business endurance report continued

Corporate social investment

Adcock Ingram embraces opportunities to improve access to adequate healthcare for all South Africans, especially those who lack resources. Our mission of 'adding value to life' dovetails with South Africa's healthcare challenges, which are to provide:

- Access to equitable, quality, integrated primary healthcare services;
- Social interventions that address the healthcare needs of those vulnerable to HIV and AIDS or who have already contracted the disease; and
- Healthcare solutions for those in informal settlements and rural areas.

During the year under review Adcock Ingram approved a comprehensive Corporate Social Investment (CSI) policy and will partner with those whom we believe can have a genuine impact on lives and prioritise social rather than monetary returns. Adcock Ingram's CSI policy outlines a funding procedure through which financial support is directed to projects that seek to add value to people's lives. This funding is allocated to three key areas:

- **Flagship programmes** – health infrastructure programmes such as building clinics or operating theatres;
- **Healthcare and vulnerable group programmes** and associated projects, such as the Organ Donor Foundation's requested funds to educate people in donating organs; and
- **CEO and Chairman's Discretionary Fund** is for projects decided upon at the discretion of the CEO or the Chairman, who in the course of their respective duties may encounter worthy projects that fall within the ambit of Adcock Ingram's CSI policy.

Flagship Programmes: Healthcare Infrastructure Projects

Mbashe – Madwaleni HIV and AIDS Treatment and Care Programme

Adcock Ingram sponsored the construction of three new HIV/Aids and TB clinics at Nkanya, Melitafa and Hobeni in the Eastern Cape. The key focus areas were the provision of healthcare services in the area and education to prevent transmission of HIV and Aids. Adopting a pre-emptive approach encouraged people to be tested for HIV and AIDS, while the programme also supports ARV treatment programmes, home-based care and orphans and vulnerable children.

Mbashe facts and figures

Amount donated: R4,5 million

Impact of the project: will reach and treat an estimated 20 000 orphans and vulnerable children in the Mbashe area within four years.

Red Cross Children's Hospital (Cape Town)

Adcock Ingram partnered with the Red Cross Children's Hospital in upgrading operating theatres at the Red Cross War Memorial Children's Hospital. Refurbishment of the hospital's cardio-thoracic theatre, at a cost of R4 million, was completed and officially launched in September 2009. This theatre can now handle over 350 cardiac procedures per year and is used to train aspirant cardiologists from the universities of Cape Town and Stellenbosch.

Red Cross facts and figures

Amount donated: R4 million

Impact of the project: will enable surgical teams to perform 25% more cardio-thoracic procedures each year.

SHAWCO (Khayelitsha and Cape Town)

Adcock Ingram supports the Students' Health and Welfare Centres Organisation (SHAWCO), which was founded in 1943 by Andrew Kinnear, a medical student who saw the need in the impoverished communities of Cape Town. This one-man initiative quickly grew into one of the country's largest student volunteer organisations, now boasting over 1 200 volunteers running over 15 health and education projects in five SHAWCO centres, as well as participating in other locations around the greater Cape Town region.

SHAWCO facts and figures

Amount donated: R1,5 million

Impact of the project: contributes towards community health projects to extend existing services in the Khayelitsha community, which include a community centre, health promotion, community-based research, a baby clinic, a health nutrition programme and a mentorship programme.

Adcock Ingram's Cardio-thoracic Theatre at the Red Cross Children's Hospital in action with some of its first patients

Healthcare and Vulnerable Groups Programme

Soweto Hospice

Adcock Ingram donated R1 million to the creation of a Paediatric and women's ward for the new Soweto Hospice. This new, state of the art Hospice caters for AIDS patients and provides outreach support for home-based caregivers. This ward is the first of its kind in South Africa.

Big Shoes Project

Adcock Ingram donated R1,2 million towards the Big Shoes Project, an organisation established for the love and care of children affected by HIV and AIDS. Big Shoes provides medical and social care to children living in homes as well as in communities.

Heart of Soweto

Adcock Ingram committed R2 million to support a study aimed at bettering our understanding, and the monitoring of, the emergence of heart disease in township populations. As part of its support, Adcock Ingram has also refurbished the cardiology unit at Chris Hani Baragwanath Hospital.

Organ Donor Foundation (ODF)

The Organ Donor Foundation is a non-profit charity, established to address the critical shortage of organ and tissue donors in South Africa through awareness and education campaigns. Currently over 3 500 South Africans are waiting for organ and tissue transplants. Adcock Ingram has made a donation towards creating awareness amongst South Africans about the importance of organ donation. The partnership has enhanced the healthcare professional development programme, as well as the intensification of community based educational programmes.

ODF facts and figures

Amount donated: R380 000

Impact of the project: Adcock Ingram's funding sponsored street theatre shows and distributed 50 000 pamphlets to educate the public on the urgent need for organ donation. This sponsorship also included a healthcare professional development programme encompassing eight scheduled workshops. Through its sales staff, Adcock Ingram also undertook to participate in a distribution process for these pamphlets.

CEO and Chairman's Programme

Adcock Ingram supported the 34th annual Health Professionals Art Society exhibition for the ninth consecutive year. The exhibition was held at the Adler Museum, Faculty of Health Sciences, University of the Witwatersrand. The exhibition featured artworks in various media, viz. sculptures, photography, collages and other forms of artistic expression by healthcare professionals.

During the reporting period, the Hospital division supported an array of social responsibility activities in their market sector. The following are just some of the projects to which they lent support:

- **Sakhi Sizwe** – a non-profit, community-based initiative providing home-based care for orphans and child headed households;
- **Netcare Nurses Trust** – contributions to Basic and Post-Basic Nursing Training Programmes undertaken as part of the Netcare Nurses Education project;
- **Cardiac mission to Mozambique** – sponsored for intravenous solutions and Small Volume Parenterals for the Red Cross Children's Hospital cardiac mission to Mozambique;
- **National Renal Care** – a wholly South African owned company and the only private dialysis therapy provider in South Africa with a presence in every major centre in the country;
- **Comrades Marathon** – the AICC medical tent again provided assistance to runners in the 2009 event;
- **SANBS Congress 2009** – promoted various blood donation drives throughout the year;
- **Operation Smile** – AICC was a proud supporter of Operation Smile's third surgical mission in Mpumalanga. Operation Smile is an international charity that funds medical inventions to correct facial deformities in children; and
- **Baragwanath Hospital** – The Scientific Group donated a R400 000 imaging machine to the Chris Hani Baragwanath Hospital.

Corporate governance

Corporate governance includes the structures, processes and practices the board uses to direct and manage the operations of Adcock Ingram Holdings Limited and the subsidiaries within the Adcock Ingram group (Adcock Ingram or the company). These structures, processes and practices help ensure that authority is exercised, and decisions are taken in a transparent manner, within an ethical framework that promotes the responsible consideration of all stakeholders and ensures that decision-makers are held appropriately accountable.

Adcock Ingram, with its proud 120 year heritage, is committed to the principles of good corporate governance as set out in the King Reports on Corporate Governance for South Africa and the JSE Listings Requirements, and aims to infuse the core governance principles of transparency, integrity, accountability, fairness and responsibility into all aspects of its operations.

The directors are of the opinion that, save as specifically disclosed in this report, the company has complied with the principles of the 2002 King Report on Corporate Governance for South Africa (King II) during the year under review. With the release of a third King Report on Corporate Governance (King III) due to be implemented in March 2010, and a new Companies Act, the governance landscape of South African companies has changed significantly. Adcock Ingram has proactively revised the documents constituting its governance framework to include, where appropriate or applicable, the principles of King III and the new Act, even though not yet required to do so by law.

The principles underpinning the corporate governance of the company and the systems of control that form an integral part of the Adcock Ingram's corporate governance are detailed in this report.

Values and ethics

Ethics is the cornerstone of Adcock Ingram's business, and an unequivocal commitment to ethical values, fairness; transparency and integrity underline all facets of the company's operations. Adcock Ingram is committed to:

- Achieving the highest standards of transparency, accountability and integrity in the running of its business, in its dealings with stakeholders and the community at large;
- Providing stakeholders and the financial investment community with clear, meaningful and timely information about Adcock Ingram's operations and results;
- Conducting its business on the basis of fair commercial and competitive practices;
- Building business relationships with suppliers and customers who endorse ethical business practices;
- Actively pursuing transformation and ensuring employment practices which are non-discriminatory and which seek to maximise the potential of all its employees through training and skills development; and
- Pro-actively accepting responsibility for and managing the environmental and sustainability issues associated with its business.

Our corporate values are aimed at building and maintaining a culture which promotes teamwork, commitment, professionalism, integrity and a focus on business ethics, creative thinking and open and honest communication.

Adcock Ingram proudly employs three of the country's 60 trained ethics officers.

The board of Adcock Ingram is responsible for setting the ethical "tone at the top" and is in the process of reviewing the company's code of ethics to help ensure that business is conducted at all levels in the group in a manner that is beyond reproach. The new code of ethics will provide clear guidance on acceptable business practices and ethical standards by which the company's employees, suppliers and business partners will be expected to conduct themselves in their business relationships with or on behalf of the company. Once the revised code of ethics is adopted by the board in early 2010, a comprehensive training programme will be rolled out to all employees. As is the case with the existing code of ethics, the new code of ethics will provide for appropriate and consistent disciplinary action to be taken in the event of any incidence of non-compliance.

Our ethics hotline has been in operation since January 2009 and operates on a 24 hour basis to ensure formal reporting and feedback. Employees are encouraged to report inappropriate, unethical or illegal activity through the independently operated service. The ethics hotline can be accessed through a toll-free telephone number, email, fax, SMS or by letter. Reports can be received in various languages including English, Afrikaans, isiZulu, isiXhosa, seSotho and seTswane. Five reports have been received since January 2009. Two reports related to allegations of a breach of ethics and three concerned conflicts of interest All five reports have been investigated and three of these resulted in disciplinary action.

Board of directors

Adcock is led by a diverse board of nine directors, seven of whom are independent non-executives. There is a formal process for the appointment of directors to the board. Criteria used in the selection of the directors of the company include leadership qualities, depth of experience, skills, independence, personal integrity beyond reproach and business acumen. The directors collectively bring to the company a wide range of skills and experience which includes industry specific knowledge as well as broader business flair. The board is led by a chairman who is an independent non-executive director. A clear separation of powers exists between the chairman of the board and the chief executive officer.

As required by the company's articles of association, all directors retired at the first annual general meeting in January 2009 and were re-elected. In subsequent years, one-third of the directors will retire at each annual general meeting by rotation and, being eligible, may offer themselves for re-election by shareholders. Re-election of retiring directors is not automatic and is subject to the nomination committee's evaluation of directors' performance and independence.

There is no term or age limit imposed in respect of a director's appointment, however, tenure is informed by a regular, formal evaluation of the suitability, contribution and independence of each of the directors. The terms and conditions applicable to the appointment of directors are contained in a letter of appointment which, together with the board charter, forms the basis of the directors' appointment. The nominations committee plays an important role in the identification and removal of under-performing or unsuitable directors.

All directors were required to attend a formal, day-long orientation and induction session shortly after appointment in July 2008. In addition, all directors are provided with an induction file containing important legislation, the company's governance framework (including the board/committee governance structure, the board charter, terms of reference of all board committees and key company policies). Ongoing director training sessions are held where changes in the legislative, regulatory or business environment of the company warrant a specific focus, and a day-long governance session is formally scheduled in the board's annual calendar. Finally, all directors are encouraged to attend external director development and training programmes, at the cost of the company.

Board responsibilities and processes

The board is ultimately responsible to shareholders for the performance of the company. The board broadly gives strategic direction to the company; approves and regularly reviews business plans, budgets and policies; appoints the chief executive and ensures that power and authorities delegated to management are clearly and comprehensively documented and regularly reviewed and that the governance framework of the company remains appropriate and relevant. The board retains control over the company, monitors risk and oversees the implementation of approved strategies through a structured approach to reporting and accountability.

The board is governed by a board charter which sets out, *inter alia*, the principles and process in terms of which directors are appointed, the duties and responsibilities of the board and how issues such as dealing in the company's securities and conflicts of interest are to be dealt with. In line with the board's commitment to implementing the highest practicable standards of corporate governance within the company, the board charter has recently been reviewed to incorporate the principles of the King III Report wherever appropriate.

The meetings of the board and board committees are scheduled annually in advance. In addition to regular consideration of the company's operational and financial performance at each of its meetings, the board's annual work-plan aims to ensure that the board deals with each of the matters reserved for its consideration during the course of its annual meetings. The number of meetings held during the year under review (including meetings of board-appointed committees) and the attendance of each director is contained on pages 42 to 44 of this report. The board strives to ensure that non-attendance by directors at scheduled board meetings is the exception rather than the norm, and directors who are unable to attend meetings are required to communicate their reasons for non-attendance in advance to the company secretary for formal notification to the board.

Board papers are provided to directors in a timely manner, in advance of meetings, and directors are afforded ample opportunity to study the material presented and to request further information from management where necessary. All directors may propose further matters for inclusion on the agenda of board meetings. The board is given unrestricted access to all company information, records, documents and facilities through the office of the company secretary.

Corporate governance continued

Directors are kept appropriately informed of key developments affecting the company between board meetings. Non-executive directors have full access to management and may meet separately with management, without the attendance of executive directors, where necessary. Where required, arrangements for such meetings are facilitated through the office of the company secretary. At least twice annually, the non-executive directors meet without the executive directors or other members of management being present to discuss issues relevant to the board and the company.

The company secretary attends all board meetings and provides the board and the directors, collectively and individually, with guidance on the executions of their governance role and compliance with the required statutory procedures.

Board meetings

The following table sets out the attendance by directors at scheduled board meetings held during the year under review.

Board meetings	December 2008	January 2009	May 2009	June 2009	September 2009 strategy	September 2009
KDK Mokhele *(Chairman)*	Y	Y	Y	Y	Y	Y
EK Diack	Y	Y	Y	A	Y	Y
AG Hall	Y	Y	Y	Y	Y	Y
T Lesoli	Y	Y	Y	Y	Y	Y
JJ Louw	Y	Y	Y	Y	Y	Y
GN Padayachee*	A					
CD Raphiri	A	Y	A	Y	Y	Y
LE Schönknecht	Y	Y	A	Y	Y	Y
RI Stewart	Y	Y	Y	Y	Y	Y
AM Thompson	Y	Y	Y	Y	Y	Y

A – Apology ** Resigned 1 December 2008*

In addition, a number of special board meetings were held during the year. The nature of these special board meetings was such that they were often required to be called on short notice to the directors, and directors' attendance at these meetings must therefore been seen in this context. The table below sets out attendance by directors at special and *ad hoc* board meetings.

Ad hoc board meetings	November 2008	April 2009	June 2009
KDK Mokhele *(Chairman)*	Y	A	Y
EK Diack	Y	Y	Y
AG Hall	Y	Y	Y
T Lesoli	A	Y	Y
JJ Louw	Y	Y	Y
GN Padayachee*	Y		
CD Raphiri	A	Y	A
LE Schönknecht	Y	A	Y
RI Stewart	A	Y	Y
AM Thompson	Y	Y	Y

A – Apology ** Resigned 1 December 2008*

Board committees

Four dedicated board committees, with specific terms of reference, allow the board to focus specially on the following areas:

- audit;
- risk;
- transformation; and
- human resources, remuneration and nominations.

The terms of reference of each of the board committees has been revised to include the recommendations of King III and certain of the requirements of the 2008 Companies Act, where appropriate. For example, board committees may co-opt advisors or persons with certain specific skills wherever it is considered necessary to supplement the skills of the committee. The mandate of the risk committee has also been expanded to include a specific focus on issues of sustainability.

All committees of the board meet at least three times per annum, on dates scheduled to coincide with key dates in the company's annual calendar of events. *Ad hoc* meetings of committees may be scheduled as and when necessary. In addition to the committees listed above, the board may constitute additional committees from time to time, either on a permanent or *ad hoc* basis, should the business of the company so require.

The company secretary is the secretary to all committees of the board and ensures that the committees act within the parameters of their respective mandates in terms of an agreed annual work plan.

There is a formal reporting procedure to enable the board to stay abreast of the activities of each committee. In terms of the board charter, the directors may obtain independent professional advice, at the company's expense, should they deem it necessary for the proper execution of their directorial role.

Audit committee

The audit committee is made up of three independent non-executive directors being Mr Eric Diack (chairman), Dr Roger Stewart (who chairs the risk committee) and Mr Andrew Thompson. Adcock Ingram's chief executive and chief financial officers and the external and internal auditors attend meetings of the committee by invitation. All members and invitees of the audit committee have unrestricted access to the chairman of the committee.

The responsibilities of the audit committee, which are set out in the committee's terms of reference, include the review of the company's financial statements and the recommendation of their approval to the board; reviewing the accounting policies of the company; overseeing the development and implementation of processes to achieve compliance with all applicable legal and regulatory requirements; communicating with the internal and external auditors, determining auditors' remuneration and the scope of internal and external auditors and generally providing assurances to the board as to the integrity and appropriateness of the financial management systems in place in the company.

The internal audit function is outsourced and the committee plays an active role in the management of the relationship with the internal audit team. The effectiveness of the company's internal audit function is evaluated by annual assessments against pre-determined criteria.
In addition, in line with the JSE Listings Requirements, the committee is required annually to specifically consider and report on the integrity of the finance function and the suitability of the chief financial officer. Each of these responsibilities is scheduled for attention at specific meetings in terms of the annual board and committee work plan. In this way, the company secretary is able to ensure that the committee delivers in terms of its mandate as defined by the board.

The committee held the following meetings during the year under review:

Audit committee meetings	November 2008	May 2009	September 2009
EK Diack *(Chairman)*	Y	Y	Y
GN Padayachee*	A		
RI Stewart	Y	Y	Y
AM Thompson	Y	Y	Y

** Resigned 1 December 2008*

Risk committee

The risk committee to be (reconstituted as the risk and sustainability committee from 1 October 2009) is made up of three independent non-executive directors being Dr Roger Stewart (chairman), Mr Leon Schönknecht and Mr Eric Diack (who chairs the audit committee). Adcock Ingram's chief executive and chief financial officers, representatives of the external and internal auditors, relevant representatives of management and the company's insurance advisers, attend meetings of the committee by invitation from time to time.

The board's policy on risk management encompasses all significant business risks to the company which could undermine the achievement of business objectives. The primary role of the risk committee is to ensure the existence of an appropriate and effective control environment and clear parameters within which risk is managed throughout the group and to oversee issues relating to sustainability. The committee is charged with the responsibility, *inter alia*, to oversee the conduct of a business risk assessment aimed at identifying the most significant commercial, financial, compliance and sustainability risks, and putting in place steps to mitigate these. It further assists the board in setting the risk strategy and risk policies and in determining the company's appetite or tolerance for risk.

As with the other board committees, the members of the risk committee may take independent professional advice as required to assist it in the execution of its mandate.

Corporate governance continued

The committee held the following meetings during the year under review:

Risk committee meetings	November 2008	May 2009	September 2009
RI Stewart *(Chairman)*	Y	Y	Y
EK Diack	Y	Y	Y
LE Schönknecht	Y	Y	Y

Human resources, remuneration and nominations committee

The human resources, remuneration and nominations committee (Remco) currently comprises three directors, namely Dr Khotso Mokhele (chairman and chairman of the board), Mr Leon Schönknecht and Mr Clifford Raphiri.

The committee assists the board, *inter alia*, in the determination of remuneration and performance measures of executive and senior management, determines the remuneration philosophy of the company, assists the board in the determination of appropriate human capital management policies and reviews the terms and conditions of key executive service agreements at least annually. The committee also oversees the annual performance evaluations of the board, ensures that the board is appropriately constituted with regard to the skills, experience and diversity of its members, and makes recommendations on succession, training and removal of directors where necessary.

The constitution of this committee does not presently comply with King II, in that it is chaired by the chairman of the board. This was largely as a result of the board's decision to combine the oversight of the remuneration and nominations functions and the fact that much of the work done by this committee in the year under review was focused on issues relating to board composition. The board has adopted new terms of reference for this committee which will require it to be reconstituted from the company's new financial year commencing October 2009, to ensure alignment with the recommendations of governance best practice in this area.

The committee held the following meetings during the year under review:

Remco meetings	11 November 2008	27 November 2009	September 2009
KDK Mokhele *(Chairman)*	Y	Y	Y
GN Padayachee*	A		
CD Raphiri	Y	Y	A
LE Schönknecht	Y	Y	Y

* *Resigned 1 December 2008*

Transformation committee

In contrast to the other board committees which are wholly non-executive in their constitution, the transformation committee consists of both non-executive and executive directors. Relevant members of management attend meetings of the committee by invitation. The committee is currently chaired by Dr Tlalane Lesoli. Its members are Dr Khotso Mokhele, Dr Jonathan Louw (CEO) and Mr Andy Hall (CFO).

This committee is responsible for guiding, monitoring, reviewing and evaluating Adcock Ingram's progress in respect of transformation with the objective of ensuring that Adcock Ingram's equity ownership and the demographic profile of its employees are representative in the South African context.

The committee is also responsible for the establishment and implementation of a measurement and monitoring framework and for the company's transformation plan. It furthermore reviews and monitors the company's procurement policies to encourage procurement practices that are equitable and supportive of the objective of black economic empowerment, where possible.

Transformation committee meetings	November 2008	January 2009	February 2009	April 2009	18 May 2009	28 May 2009	July 2009	August 2009	September 2009
T Lesoli *(Chairman)*	Y	Y	Y	Y	Y	Y	Y	Y	Y
AG Hall	Y	Y	Y	Y	Y	Y	Y	Y	Y
JJ Louw	Y	Y	Y	Y	Y	Y	Y	Y	Y
KDK Mokhele	Y	A	Y	Y	Y	Y	Y	Y	Y
AM Thompson	Y	Y	Y	Y	Y	Y	Y	Y	Y

Governance framework

The governance framework of Adcock Ingram presently consists of the following:

- A board charter which sets clear direction regarding the composition, purpose, role and responsibilities of the board of directors;
- Written terms of reference for the board committees which constitute the committees and determines their roles *vis-á-vis* the board;
- A delegation of authority policy in terms of which the board formally delegates its authority in certain areas to the CEO and management whilst reserving other issues to itself for decision;
- A code of ethics which provides direction on the ethical framework within which Adcock Ingram conducts its business. This code is presently being reviewed; and
- A framework of policies and procedures which are reviewed regularly and approved by the Adcock Ingram executive committee, acting under delegated authority from the board, and posted on the company's intranet.

The board has adopted formal policies dealing with conflicts of interest and trading in securities. The purpose of the latter policy is to regulate trading in the company's shares and to restrict trading during any period when an individual may be in possession of unpublished potentially price sensitive information. These policies are applicable to all directors and employees of the group.

Exercises of delegated authority above a pre-determined level are notified to and monitored by the board on a regular basis. With the exception of the delegation of authority policy and the code of ethics, all documents constituting the governance framework were revised in September 2009 to ensure alignment with King III, the new Companies Act and local and international best practice as appropriate. The revised governance framework will become applicable from 1 October 2009. A review of the delegation of authority policy is scheduled for the new financial year.

Board performance

The performance of the board, the board committees, the individual directors, the chief executive officer and the company secretary was formally evaluated in a detailed performance assessment after the board had been in office for a year. As a result of the evaluation, a decision was taken to reconstitute certain of the board committees.

Board remuneration

Details of the company's remuneration policies and practices and the remuneration paid to its directors are set out on page 54 of this report. The remuneration of non-executive directors was previously approved by the shareholders of Adcock Ingram's former parent, Tiger Brands Limited, prior to the unbundling and separate listing of Adcock Ingram's in August 2008. Adcock Ingram will seek the approval of its shareholders for the directors' remuneration payable for the new financial year at its next annual general meeting (AGM) in the first quarter of 2010.

Non-executive directors are remunerated by way of board fees only. Board remuneration currently consists of a fixed annual fee regardless of the number of meetings attended. This will be reviewed from the new financial year to include a base fee and a meeting-based attendance fee, to ensure alignment with governance best practice. In line with the recommendations of the King reports on corporate governance, non-executive directors' remuneration is not linked in any way to the performance of the company. For more details regarding directors' remuneration, please refer to page 54.

The company acknowledges the increased responsibilities and exposure of directors and believes that all directors should be fairly remunerated. An increase in board fees will therefore be proposed at the forthcoming AGM. The proposed fees are based on the recommendation from the human resources, remuneration and nominations committee, supported by the board of directors, following relevant benchmarking and comparative research.

Going concern

The board of directors have determined that the group has sufficient resources to maintain the business for the future and confirm that the business is a going concern. The board has minuted the facts and assumptions used in the assessment of the group's going-concern status at the financial year end.

Stakeholder communication

When reporting to stakeholders, the board of directors recognises its duty to present a balanced and understandable assessment of the company' position. A policy of proactive stakeholder communication is in place. Adcock Ingram aims to deliver information on material matters of significant interest to all parties including shareholders, other stakeholders and the financial and investment community in a timely manner. Stakeholder communication is guided by considerations of promptness, relevance, transparency and accuracy of content.

Investor road shows, presentations and formal announcements are some of the means we use to communicate with the market. Shareholders are also encouraged to attend the company's AGM and to make use of this opportunity to engage with the directors on matters concerning the business of the company.

Corporate governance continued

Risk management

Adcock Ingram's management of risk is overseen by the risk committee. The schedule of top risks and the risk mitigation strategies in respect of each of these is reviewed quarterly or more frequently as circumstances require. Some of the major risks identified and the risk mitigation strategies in respect of which these are currently managed, are set out in the tables below:

Strategic risk

Product portfolio	• Innovation remains one of our core values and new product development is a critical outcome for our R&D facilities. • Our new business development team is constantly sourcing new product pipelines available for acquisition or licensing from our multinational counterparts. • Our acquisitions of TLC, Batswadi Biotech, and Unique Formulations have already added depth to our product portfolio. • Various potential acquisitions are under consideration.
Portfolio management	• The group continues to invest in new brands which are housed under the Adcock Ingram umbrella, thus leveraging our investment. • Advisers were engaged to assist with foreign regulatory requirements and debt structuring. • New dossiers and formulations are being developed to replace old formulations.

Financial risk

Foreign exchange	• The group's foreign exchange and hedging policies are set by the board. • Management performs weekly reviews of the group's exchange rate exposure. The CEO and the CFO are authorised to take appropriate corrective action where necessary.
Supply and cost pressures in respect of API	• Procurement of API is scheduled and handled centrally thus enabling cost savings to be negotiated. • Purchases are made in advance with delivery staggered to meet operational needs.
Liquidity, credit and recessionary risk	• Adcock Ingram took a strategic decision to finance its manufacturing and regulatory infrastructure upgrades, whilst holding onto its cash reserves to pay for acquisitions. • Cash on hand is invested with reputable banks in terms of a board approved investment policy • The group mitigates its liquidity risks by ensuring that financial facilities are in place for at least 18 months after signing off the financials. • The cash position is reviewed by the relevant finance managers daily and by the executive committee on a weekly basis.

Operational risk

Product contamination, recall and liability	• Product liability and recall insurance is in place. • A crisis committee of key executives, including the CEO, is able to be assembled at short notice, to deal with situations where required. • Crisis management plans are formalised at business unit level.
Safety and security	• A specialist group loss control officer has been appointed to oversee and advise on all of the group's safety and security arrangements. • All of our local operations have been equipped with, or are in the process of being equipped with remotely monitored close-circuit camera systems. • API are generally stored off-site and armed guards escort all trucked inventory. • A 24 hour independently operated whistle-blowing hotline has been launched and is monitored by Deloitte. • The manufacture of most products containing codeine and ephedrine has been moved to our manufacturing facilities in India.
Supply	• Our programme of upgrades between now and 2012 will help ensure that we have sufficient manufacturing capacity available to meet demand for at least the next decade.

Legislative and Regulatory Risk

Legislative risk	• Adcock Ingram participates in a number of industry bodies through which it has an opportunity to guide regulation and positively influence the development of legislation affecting the pharmaceuticals sector. Our CEO, Jonathan Louw, is currently the President of PIASA. • Submissions have been made to the Department of Health in respect of International Benchmarking and Single Exit Pricing. • Directors and staff are trained on key aspects of relevant legislation and regulations by which Adcock Ingram is bound. For example, a comprehensive, online competition training programme has been made available to all directors and employees for the new financial year.

Corporate governance continued

Organisational risk

Competing for talent and human capital	• Employees with critical skills have been identified and specific retention tools have been employed where appropriate. These include the grant of phantom cash options, executive training and development programmes and other similar interventions. • A comprehensive employee wellness programme has been implemented. • All employees contract with the company in terms of an individual performance agreement each year. Performance reviews are held quarterly and guidance for development and improvement is offered. • Climate surveys, post-placement and retention interviews form part of the regular strategies used by the human capital division to ensure a climate within Adcock Ingram in which every employee can give of his or her best. • A structured succession planning strategy is in place in respect of all key positions.
Transformation and BEE	• The announcement of our BBBEE transaction in November 2009 has addressed concerns over the pace of transformation which was previously identified as an area of risk. • To ensure alignment by our employees with the group's transformation objectives, a significant portion of each employee's short-term incentive is linked to the achievement of these objectives. • The group has improved it measurement of its BBBEE procurement to ensure appropriate measurement and reporting of its achievements in this area.

Market risk

Industry consolidation	• Through ongoing interaction with our major customers, suppliers and merchant bankers, we keep abreast of the latest trends in the industry and of potential opportunities for the acquisition of new products or businesses.

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Directors' responsibility for and approval of the annual financial statements

In terms of the South African Companies Act, 1973, as amended, the directors are required to prepare annual financial statements that fairly present the state of affairs and business of the company and of the group at the end of the financial year and of the profit for the year then ended.

The directors of Adcock Ingram Holdings Limited are responsible for the integrity of the annual financial statements of the company and consolidated subsidiaries and the objectivity of other information presented in the annual report.

The fulfilment of this responsibility is discharged through the establishment and maintenance of sound management and accounting systems, the maintenance of an organisation structure which provides for the delegation of authority and clear established responsibility, together with the constant communication and review of operational performance measured against approved plans and budgets.

Management and employees operate in terms of a code of ethics approved by the board of directors. The code requires compliance with all applicable laws and maintenance of the highest integrity in the conduct of all aspects of the business.

The annual financial statements, prepared in terms of International Financial Reporting Standards and the Companies Act, are examined by our auditors in conformity with International Standards of Auditing.

An audit committee of the board of directors, composed entirely of independent non-executive directors, meets periodically with our auditors and management to discuss internal accounting controls, auditing and financial reporting matters. The auditors have unrestricted access to the audit committee.

The annual financial statements for the year ended 30 September 2009, which appear on pages 52 to 122, which are in agreement with the books of account at that date, and the related group annual financial statements, were approved by the board of directors on 23 November 2009 and signed on its behalf by:

Mokhele

KDK Mokhele
Chairman

JJ Louw
Chief Executive Officer

23 November 2009

Certificate by company secretary

I certify that the company has lodged with the Registrar of Companies all such returns as are required of a Public Company in terms of section 268G(d) of the Companies Act, 1973, and that all such returns are true, correct and up to date.

R Naidoo
Company Secretary

23 November 2009

Independent auditor's report

to the members of Adcock Ingram Holdings Limited

REPORT ON THE STATUTORY ANNUAL FINANCIAL STATEMENTS

We have audited the annual financial statements of Adcock Ingram Holdings Limited and its subsidiaries (the company and group), which comprise the balance sheet as at 30 September 2009, the income statement, the statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 52 to 122.

Pro forma information contained in the Annual Financial Statements

This report relates solely to the information contained in the annual financial statements as noted above excluding information described as *pro forma* information. The *pro forma* information does not conform with International Financial Reporting Standards. Our report on the *pro forma* information is contained on page 123.

Directors' responsibility for the Annual Financial Statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the annual financial statements present fairly, in all material respects, the financial position of the company and group as of 30 September 2009, and the financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

Ernst & Young Inc.

Ernst & Young Inc.
Registered auditor

23 November 2009
Johannesburg

Directors' report

The directors have pleasure in submitting their report to shareholders, together with the audited annual financial statements for the year ended 30 September 2009.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Adcock group is a leading South African healthcare group, operating two principal divisions, a pharmaceutical division selling a range of prescription and OTC products, and a hospital products and services division.

The Companies Act 2006 requires that the company produce a fair review of the business of the group including a description of the major risks, its development and performance during the year and the position of the group at the end of the financial year. These are set out in the business commentaries on pages 46 to 48 of the annual report. Other key performance indicators and information relating to sustainability are set out on pages 30 to 39 of the annual report.

ACQUISITIONS DURING THE YEAR

During the past year, the group acquired 100% of the shares in Tender Loving Care (Pty) Limited (note 23.5.1), as well as a 45% share in Batswadi Biotech (Pty) Limited (note 23.5.2). The group also opened an office in Kenya.

POST BALANCE SHEET

Details about post balance sheet events are set out in note 30.

SHARE CAPITAL

Details of the authorised and issued share capital are set out in note 16 of the annual financial statements and in the statement of changes in equity.

During the year under review the number of shares in issue increased by 570 410 shares as a result of options exercised in terms of the Adcock Ingram (2008) Share Option Scheme.

DIVIDENDS

The Adcock board intends to declare a dividend on at least an annual basis, which it currently envisages will be covered three times by headline earnings. The maiden interim dividend of 70 cents per share was declared based upon the results of the six-month period ending 31 March 2009, and the final dividend payable in relation to the year ended 30 September 2009 is envisaged to be paid on 18 January 2010.

GOING CONCERN

Page 50 sets out the directors' responsibilities for preparing the consolidated financial statements. The directors are satisfied that Adcock Ingram Holdings Limited is a going concern.

SUBSIDIARIES, JOINT VENTURES AND INVESTMENTS

Financial information concerning the principal subsidiaries, joint ventures and investments of Adcock Ingram Holdings Limited is set out in Annexure A of the annual financial statements. Details of joint ventures are given in note 24.

Directors' report continued

ATTRIBUTABLE INTEREST

The attributable interest of the company in the profits and losses of its subsidiaries and joint ventures is as follows:

	2009 R'000	*Pro forma* 2008 R'000	Statutory 2008 R'000
Subsidiaries			
Total income after taxation	**643 583**	599 141	266 789
Joint ventures			
Total income after taxation	**15 864**	14 828	8 539

DIRECTORS

The names of the directors who presently hold office are set out on pages 6 and 7 of this report.

No director holds 1% or more of the ordinary shares of the company. The directors beneficially hold, directly and indirectly, 39 400 ordinary shares in the company.

Details of the directors' shareholdings (direct and indirect) are reflected below.

Director	Number of shares 2009	Number of shares 2008
JJ Louw*	**39 300**	39 300
AG Hall	**100**	100
	39 400	39 400

These shares are subject to loans.

RESOLUTIONS

No special resolutions were passed during the year.

RETIREMENT FUNDS

Details in respect of the retirement funds of the group are set out in note 20.

RELATED PARTY TRANSACTIONS

Directors' remuneration

No fees for services as directors or consulting or other fees were paid to the executive directors in the current or prior year. Directors do not participate in any commissions, gain or profit-sharing arrangements. The following table shows a breakdown of the annual remuneration of directors for the year ended 30 September 2009.

Directors' report continued

Name	Salary/ directors' fee 2009 R'000	Contributions to defined contribution plan 2009 R'000	Gross remuneration 2009 R'000	Annual bonus 2009 R'000	Total remuneration 2009 R'000	Total remuneration 2008 R'000
Executive directors						
JJ Louw	**2 249**	**405**	**2 654**	**446**	**3 100**	5 158
AG Hall	**2 020**	**315**	**2 335**	**421**	**2 756**	2 231
Total	**4 269**	**720**	**4 989**	**867**	**5 856**	7 389
Non-executive directors						
EK Diack	**311**		**311**		**311**	75
T Lesoli	**201**		**201**		**201**	171
KDK Mokhele	**500**		**500**		**500**	750
GN Padayachee *(resigned 1 December 2008)*	**63**		**63**		**63**	204
CD Raphiri	**185**		**185**		**185**	163
LE Schönknecht	**226**		**226**		**226**	191
RI Stewart	**276**		**276**		**276**	56
AM Thompson	**241**		**241**		**241**	65
Total	**2 003**	**–**	**2 003**	**–**	**2 003**	1 675
Total executive and non-executive directors	**6 272**	**720**	**6 992**	**867**	**7 859**	9 064

Executive directors' total assumed remuneration cost to company

The table below provides the total cost to the company in relation to executive directors' remuneration. Total cash payments and benefits reflect the information disclosed in the table above. The IFRS accounting charge (in terms of IAS 19 *Employee Benefits*) reflects the cost that has been expensed by the company in its income statement in the relevant year in relation to long-term incentive awards that have been granted to executive directors.

Name	Salary, bonus and other benefits 2009 R'000	Accounting IFRS charge in respect of share-based payments 2009 R'000	Total assumed remuneration 2009 R'000	Salary, bonus and other benefits 2008 R'000	Accounting IFRS charge in respect of share-based payments 2008 R'000	Total assumed remuneration 2008 R'000
Executive directors						
JJ Louw	**3 100**	**3 454**	**6 554**	5 158	818	5 976
AG Hall	**2 756**	**1 170**	**3 926**	2 231	107	2 338
Total	**5 856**	**4 624**	**10 480**	7 389	925	8 314

Directors’ report continued

Share options granted to directors of the company

Details of share options in Adcock Ingram granted to directors are as follows:

	Offer date	Offer price R	Balance at the beginning of the year	Exercised during the year	Issued during the year	Balance at the end of the year
JJ Louw						
Equity-settled options	01/09/2001	10,47	33	–	–	33
	29/01/2004	13,62	7 700	–	–	7 700
	25/01/2005	19,96	11 400	–	–	11 400
			19 133	–	–	19 133
Cash-settled phantom options	31/01/2006	31,38	64 323	–		64 323
	22/01/2007	35,43	70 994	–		70 994
	22/01/2008	34,69	77 188	–		77 188
	01/04/2008	28,27	94 817	–		94 817
	01/10/2008	34,78	–	–	152 599	152 599
	01/01/2009	33,38	–	–	158 999	158 999
			307 322	–	311 598	618 920
Total			**326 455**	**–**	**311 598**	**638 053**
AG Hall						
Cash-settled phantom options	22/01/2008	34,69	48 600	–		48 600
	01/10/2008	34,78	–	–	100 714	100 714
	01/01/2009	33,38	–	–	104 938	104 938
Total			**48 600**	**–**	**205 652**	**254 252**

Refer to note 29 for details of vesting conditions.

Key management

Key management comprises the executive committee of the company including the directors. As the directors’ details have been disclosed separately above, they are excluded from these figures.

The following table shows a breakdown of the annual remuneration (excluding Staff Incentive Scheme awards) of key management for the year ended 30 September 2009.

	Salary 2009 R‘000	Contributions to defined contribution plan 2009 R‘000	Gross remuneration 2009 R‘000	Annual bonus 2009 R‘000	Total remuneration 2009 R‘000	Total remuneration 2008 R‘000
Total	**9 958**	**1 746**	**11 704**	**1 632**	**13 336**	9 180

Directors' report continued

Key management's total assumed remuneration cost to company

The table below provides the total cost to the company in relation to key management's remuneration. Total cash payments and benefits reflect the information disclosed in the table above. The IFRS accounting charge (in terms of IAS 19 *Employee Benefits*) reflects the cost that has been expensed by the company in its income statement in the relevant year in relation to long-term incentive awards that have been granted to key management.

	Salary, bonus and other benefits 2009 R'000	Accounting IFRS charge in respect of share-based payments 2009 R'000	Total assumed remuneration 2009 R'000	Salary, bonus and other benefits 2008 R'000	Accounting IFRS charge in respect of share-based payments 2008 R'000	Total assumed remuneration 2008 R'000
Total	**13 336**	**5 913**	**19 249**	9 180	3 486	12 666

Share options granted to key management of the company

Details of share options in Adcock granted to key management are as follows:

	Offer date	Offer price R	Balance at the beginning of the year	Exercised during the year	Issued during the year	Balance at the end of the year
Equity-settled options	03/02/2003	11,77	3 400	–	–	3 400
	29/01/2004	13,62	8 400	–	–	8 400
	25/01/2005	19,96	17 700	–	–	17 700
	01/07/2005	22,60	10 000	–	–	10 000
			39 500	–	–	39 500
Cash-settled phantom options	31/01/2006	31,38	126 740	–		126 740
	22/01/2007	35,43	138 652	–		138 652
	22/01/2008	34,69	153 433	–		153 433
	01/10/2008	34,78	–	–	335 744	335 744
	01/01/2009	33,38	–	–	349 837	349 837
			418 825	–	685 581	1 104 406
Total			**458 325**	**–**	**685 581**	**1 143 906**

Refer to note 29 for details of vesting conditions.

Segment report

The group has elected to early adopt IFRS 8 *Operating Segments* and comparative information has been restated in accordance with IFRS 8.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. For these purposes, the group is organised into business units based on products, services and customer segments, and has the following three reportable operating segments for financial performance purposes:

- Over the Counter, which comprises pharmaceutical products available without prescription as well as personal care products
- Prescription, which comprises products available on prescription only
- Hospital Products

No operating segments have been aggregated to form the above reportable operating segments.

Group financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments.

		Pro forma	Statutory[1]
	2009	2008	2008
	R'000	R'000	R'000
INCOME STATEMENT			
Turnover			
Over the Counter	**1 288 966**	1 087 900	580 862
Prescription	**1 466 736**	1 041 710	560 597
Pharmaceuticals	**2 755 702**	2 129 610	1 141 459
Hospital Products	**1 249 451**	1 171 284	617 349
	4 005 153	3 300 894	1 758 808
Impairment losses			
Over the Counter	**–**	–	–
Prescription	**–**	11 558	11 558
Pharmaceuticals	**–**	11 558	11 558
Hospital Products	**–**	6 233	6 233
	–	17 791	17 791
Operating profit			
Over the Counter	**402 448**	417 368	201 111
Prescription	**421 788**	336 811	171 613
Pharmaceuticals	**824 236**	754 179	372 724
Hospital Products	**220 593**	250 454	128 825
	1 044 829	1 004 633	501 549

[1] *Statutory represents six months of trading.*

Segment report continued

As the assets and liabilities of the Over the Counter and Prescription products are integrated and managed in the Pharmaceutical division as a whole, the group regards this as a single primary business segment for balance sheet purposes and therefore has the following reportable segments for balance sheet purposes:

- Pharmaceuticals
- Hospital Products

	2009 R'000	Statutory/ *Pro forma* 2008 R'000
BALANCE SHEET		
Total assets		
Pharmaceuticals	**2 465 121**	1 785 184
Hospital Products	**922 379**	927 695
	3 387 500	2 712 879
Current liabilities (excluding bank overdrafts)		
Pharmaceuticals	**726 831**	522 631
Hospital Products	**196 795**	232 974
	923 626	755 605
Capital expenditure[1]		
Pharmaceuticals	**156 605**	190 339
Hospital Products	**72 004**	40 048
	228 609	230 387

[1] *Capital expenditure consists of additions to property, plant and equipment.*

	2009 R'000	*Pro forma* 2008 R'000	Statutory 2008 R'000
OTHER			
Depreciation and amortisation			
Pharmaceuticals	**37 367**	32 073	18 331
Hospital Products	**45 403**	36 535	18 454
	82 770	68 608	36 785

A geographical segment report has not been prepared, as in excess of 90% of the turnover is based on sales generated within the borders of South Africa.

No individual customer contributes more than 10% of the total turnover.

Accounting policies

CORPORATE INFORMATION

The consolidated financial statements of Adcock Ingram Holdings Limited (the company) and Adcock Ingram Holdings Limited and its subsidiaries (the group) for the year ended 30 September 2009 were authorised for issue in accordance with a resolution of the directors on 23 November 2009. Adcock Ingram Holdings Limited is incorporated and domiciled in South Africa, where its shares are publicly traded.

BASIS OF PREPARATION

The consolidated financial statements have been revised to bring them in line with IAS1 *Presentation of Financial Statements* and IFRS 8 *Operating Segments*.

Bases of preparation of 2008 information

Statutory information

On 31 March 2008, Adcock Ingram Holdings Limited acquired 100% of Adcock Ingram Healthcare (Pty) Limited, Adcock Ingram Critical Care (Pty) Limited and Adcock Ingram Intellectual Property (Pty) Limited. On 1 April 2008, Adcock Ingram Holdings Limited acquired 100% of Adcock Ingram Limited and 49,9% of Adcock Ingram Limited India (joint venture). On 1 July 2008, Adcock Ingram Holdings Limited acquired 100% of Thembalami Pharmaceuticals (Pty) Limited, a dormant company.

Statutory information therefore represents only six months of trading.

Pro forma information

The basis of preparation and the disclosures of the *pro forma* information are not intended to be in compliance with the requirements of International Financial Reporting Standards. Such Standards do not set out standards for preparation of "*pro forma* information". It is acknowledged however that the financial information upon which the *pro forma* information has been prepared, is in accordance with such Standards and been reported on by the independent auditors without qualification.

Pro forma figures have been presented on the following basis:

- These figures have been presented as if the Adcock Ingram group as at 30 September 2008 had been in existence for the entire year.
- Accounting policies adopted by the group for statutory purposes have been consistently applied to these figures.
- Business combinations as a result of the unbundling have not been separately disclosed.
- No *pro forma* statement of changes in equity has been provided.
- The earnings per share calculation has been done as if shares were in issue from the first day of the financial year.
- As Adcock Ingram was part of the Tiger Brands group for 11 months of the year, Tiger Brands was regarded as a related party for disclosure purposes.

STATEMENT OF COMPLIANCE

The annual financial statements of the group and company have been prepared on the historical basis and in accordance with International Financial Reporting Standards (IFRS). The accounting policies adopted are consistent with those applied in the annual financial statements for the year ended 30 September 2008, except for the early adoption of IFRS 8 *Operating Segments* and IAS 1 *Presentation of Financial statements* (Revised). The implementation of IFRS 8 did not lead to differences in the basis of segmentation compared to previous periods. IAS 1, IFRS 8 and IFRIC 14 are disclosure standards and have no impact on the measurement or recognition of items included in the annual financial statements and accordingly the adoption thereof has had no effect on the profit or equity for the year.

BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the company and its subsidiaries (as well as a special purpose entity deemed to be controlled by the group). The financial statements of the subsidiaries are prepared for the same reporting period using consistent accounting policies.

The results of subsidiaries acquired are included in the consolidated financial statements from the date of acquisition, being the date on which the group obtains control, and continue to be consolidated until the date that such control ceases.

Accounting policies continued

Subsidiaries acquired with the intention of disposal within 12 months are consolidated in line with the principles of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* and disclosed as held for sale. All intra-group transactions, balances, income and expenses are eliminated on consolidation. Minority interests represent the portion of profit or loss, or net assets not held by the group. It is presented separately in the consolidated income statement, and in the consolidated balance sheet, separately from own shareholders' equity. Subsequent acquisitions of minority interests are accounted for using the entity concept method, whereby the difference between the consideration and the book value of the share of the net assets is recognised as an equity transaction.

UNDERLYING CONCEPTS

The financial statements are prepared on the going concern basis, which assumes that the group will continue in operation for the foreseeable future.

The financial statements are prepared using accrual accounting whereby the effects of transactions and other events are recognised when they occur, rather than when the cash is received or paid.

Assets and liabilities and income and expenses are not offset unless specifically permitted by an accounting standard. Financial assets and financial liabilities are only offset when there is currently a legally enforceable right to offset, and the intention is either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Accounting policies are the specific principles, bases, conventions, rules and practices applied in preparing and presenting financial statements. Changes in accounting policies are accounted for in accordance with the transitional provisions in the standard. If no such guidance is given, they are applied retrospectively. If, after making every reasonable effort to do so, it is impracticable to apply the change retrospectively, it is applied prospectively from the beginning of the earliest period practicable.

Changes in accounting estimates are adjustments to assets or liabilities or the amounts of periodic consumption of assets that result from new information or new developments. Such changes are recognised in profit or loss in the period they occur.

Prior period errors are omissions or misstatements in the financial statements of one or more prior periods. They may arise from a failure to use, or misuse of reliable information that was available or could reasonably be expected to have been obtained. Where prior period errors are material, they are retrospectively restated. If it is impracticable to do so, they are applied prospectively from the beginning of the earliest period practicable.

CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The company and the group have early adopted the following new and amended IFRS standards and interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the group. They did however give rise to additional disclosures, including in some cases, revisions to accounting policies.

• IAS 1 (Revised)	*Presentation of Financial Statements*
• IFRS 8	*Operating Segments*

IAS 1 (Revised) *Presentation of Financial Statements*

The group has elected to early adopt IAS 1 (Revised). The amendment to the Standard mandates various requirements for the presentation of financial statements and specifically to aggregate information in the financial statements on the basis of shared characteristics. Changes in equity arising from transactions with owners in their capacity as owners are separated from other changes in equity which are now disclosed in the statement of comprehensive income. The statement of changes in equity for the prior period is therefore restated.

IFRS 8 *Operating Segments*

The group has elected to early adopt IFRS 8 *Operating Segments*, which requires the disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates,

Accounting policies continued

and its major customers. This is a disclosure standard which requires the adoption of the “management approach” to reporting on the financial performance of operating segments. Generally, the information to be reported would be what management uses internally for evaluating segment performance and deciding how to allocate resources to operating segments. To the extent that such information is different from what is used to prepare the income statement, statement of comprehensive income and the balance sheet, explanations and reconciliations are required. This Standard does not have any impact on the financial position and performance of the group’s operating segments, and does not have an impact on the existing segmental disclosures.

The company and the group have also adopted the following new IFRIC interpretation during the year. This did not have any material effect on the financial performance or position of the group.

IFRIC 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interactions*
The group adopted IFRIC 14 from 1 October 2008 which addresses the measurement of an asset resulting from the fair value of the plan assets exceeding the present value of the defined benefit obligation and specifies how to determine whether a surplus in a pension plan represents an economic benefit for the entity.

FOREIGN CURRENCIES

Foreign currency transactions

The consolidated financial statements are presented in South African Rands, which is the company’s functional and presentation currency. Each foreign entity in the group determines its own functional currency. Transactions in foreign currencies are initially recorded in the functional currency at the rate of exchange ruling at the date of the transaction.

Translation of foreign currency transactions

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the balance sheet date. Exchange differences are taken to profit or loss, except for differences arising on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to comprehensive income until the disposal of the net investment, at which time they are recognised in profit and loss. Tax charges and credits attributable to such exchange differences are also accounted for in comprehensive income.

If non-monetary items measured in a foreign currency are carried at historical cost, the exchange rate used is the rate applicable at the initial transaction date. If they are carried at fair value, the rate used is the rate at the date when the fair value was determined.

Foreign operations

At the reporting date the assets and liabilities of the foreign operations are translated into the presentation currency of the group (Rands) at the exchange rate ruling at the balance sheet date. The income statement is translated at the weighted average exchange rate for the year. Exchange differences are taken directly to comprehensive income. On disposal of a foreign operation, the deferred cumulative amount recognised in comprehensive income relating to that particular foreign operation is recognised in the income statement.

Goodwill and fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of a foreign operation are treated as assets and liabilities of that foreign operation, and are translated at the closing rate.

INTEREST IN GROUP COMPANIES

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate fair values, at the date of exchange, of the assets given, liabilities incurred and equity instruments issued plus any costs directly attributable to the business combination.

The acquiree’s identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities, but excluding future restructuring liabilities) are recognised at fair value at the acquisition date irrespective of the extent of minority interests. The exception is for non-current assets classified at the acquisition date as held for sale in accordance with IFRS 5. These assets are recognised and measured at fair value less costs to sell.

Accounting policies continued

The interest of minority shareholders in the acquiree is initially measured as the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Goodwill arising in a business combination is accounted for in terms of the policy outlined below.

The company carries its investments in subsidiaries and associate companies at cost less accumulated impairment losses.

Joint ventures

A joint venture is a contractual arrangement whereby the group and other parties undertake an economic activity that is subject to joint control. The strategic, financial and operating policy decisions of the joint venture require the unanimous consent of the parties sharing control.

The group reports its interests in joint ventures using the proportionate consolidation method. The group's share of the assets, liabilities, income and expenses of joint ventures are combined with the equivalent items in the consolidated financial statements on a line-by-line basis. Where the group transacts with its joint ventures, unrealised profits and losses are eliminated to the extent of the group's interest in the joint venture.

Any goodwill arising on the acquisition of a joint venture is accounted for in accordance with the group's policy for goodwill. The financial statements of the joint venture are prepared for the same reporting period as the group, using consistent accounting policies.

Where an investment in a joint venture is classified as held for sale in terms of IFRS 5, proportionate consolidation is discontinued, and the investment is held at the lower of its carrying value and fair value less costs to sell.

Transactions with minority interests

Transactions with minority interests are treated as transactions with parties external to the group.

SEGMENT REPORTING

The principal segments of the group have been identified by grouping similar-type products. This basis is representative of the internal structure for financial reporting to key management personnel. No geographical segments are reported as the group operates mainly in South Africa and the international operations do not meet the thresholds for reportable segments in terms of IFRS 8 *Operating Segments*. Segmental numbers for management purposes equal the numbers reported in the segment report. For more details on the segment reporting, refer to page 57.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment losses. Assets subject to finance lease agreements are capitalised at the lower of the fair value of the asset and the present value of the minimum lease payments.

Where an item of property, plant and equipment comprises major components with different useful lives, the components are accounted for as separate assets. Expenditure incurred on major inspection and overhaul, or to replace an item is also accounted for separately if the recognition criteria are met.

Depreciation is calculated on a straight-line basis, on the difference between the cost and residual value of an asset, over its useful life. Depreciation starts from when the asset is available for use. An asset's residual value, useful life and depreciation methods are reviewed at least at each financial year end. Any adjustments are accounted for prospectively.

Accounting policies continued

The following useful lives have been estimated:

Freehold land		Not depreciated
Freehold buildings	– general purpose	40 years
	– specialised	20 – 50 years
Leasehold improvements		The lease term or useful life, whichever is the shorter period
Plant and equipment		3 – 15 years
Furniture and fittings		3 – 15 years
Computers		3 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

GOODWILL AND INTANGIBLE ASSETS

Goodwill

Goodwill is measured initially as the excess of the cost of the acquisition over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised at the acquisition date.

Where the group's interest in the net assets recognised at the acquisition date is in excess of the cost of the acquisition, the group reassesses the identification and measurement of the acquiree's net assets and the measurement of the cost of the acquisition. If after reassessment the group's interest in the net assets exceeds the cost of the acquisition, the excess is recognised in profit and loss.

Goodwill relating to subsidiaries and joint ventures is recognised as an asset and is subsequently measured at cost less accumulated impairment losses.

Goodwill is reviewed bi-annually for impairment, or more frequently if there is an indicator of impairment. Goodwill is allocated to cash-generating units expected to benefit from the synergies of the combination. When the recoverable amount of a cash-generating unit is less than its carrying amount, an impairment loss is recognised. The impairment loss is allocated first to any goodwill assigned to the unit, and then to other assets of the unit pro rata on the basis of their carrying values. Impairment losses recognised for goodwill cannot be reversed in subsequent periods.

On disposal of a subsidiary or joint venture, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of an intangible asset acquired in a business combination is the fair value at the date of acquisition. Subsequently, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is charged to the income statement in the year in which the expense is incurred.

The useful lives of intangible assets are either finite or indefinite.

Intangible assets with finite lives are amortised over their useful life and assessed for impairment when there is an indication that the asset may be impaired. The amortisation period and the method are reviewed at each financial year end. Changes in the expected useful life or pattern of consumption of future benefits are accounted for prospectively.

The following useful lives have been estimated:

Trademarks	Indefinite
Customer and supplier related intangibles	1 – 6 years

Accounting policies continued

Intangible assets with indefinite useful lives are not amortised but are tested bi-annually for impairment either individually or at the cash-generating level. The useful lives are also reviewed in each period to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment to a finite life is accounted for prospectively.

Certain trademarks have been assessed to have indefinite useful lives, as presently there is no foreseeable limit to the period over which the assets can be expected to generate cashflows for the group.

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal.

Research and development costs

Research costs, being the investigation undertaken with the prospect of gaining new knowledge and understanding, are recognised in profit or loss as they are incurred.

Development costs arise on the application of research findings to a plan or design for the production of new or substantially improved materials, products or services, before the start of commercial production. Development costs are only capitalised when the group can demonstrate the technical feasibility of completing the project, its intention and ability to complete the project and use or sell the materials, products or services flowing from the project, how the project will generate future economic benefits, the availability of sufficient resources and the ability to measure reliably the expenditure during development. Otherwise development costs are recognised in profit or loss.

During the period of development, the asset is tested annually for impairment. Following the initial recognition of the development costs, the asset is carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation begins when development is complete. The development costs are amortised over the useful life of the intangible asset.

Impairment

The group assesses tangible and intangible assets, excluding goodwill and indefinite life intangible assets, at each reporting date for an indication that an asset may be impaired. If such an indication exists, the recoverable amount is estimated as the higher of the fair value less costs to sell and the value in use. If the carrying value exceeds the recoverable amount, the asset is impaired and is written down to the recoverable amount. Where it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is estimated.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, the hierarchy is first a binding arm's length sale, then the market price if the asset is traded in an active market, and lastly recent transactions for similar assets.

Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

Accounting policies continued

FINANCIAL ASSETS

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The group determines the classification of its financial assets at initial recognition.

The group's classification of financial assets is as follows:

Description of asset	Classification
Amounts owing by/to group companies	Loans and receivables
Trade and other receivables	Loans and receivables
Cash and cash equivalents	Loans and receivables
Investments	Available for sale

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The losses arising from impairment are recognised in the income statement in finance costs.

Available-for-sale financial investments

Available-for-sale financial investments include equity and debt securities. Equity investments classified as available-for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains and losses recognised as other comprehensive income in equity until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or determined to be impaired, at which time the cumulative loss is recognised in the income statement in finance costs and removed from the available-for-sale reserve.

Impairment losses on equity instruments are not reversed through the income statement.

Derecognition

Financial assets or parts thereof are derecognised when:

- the right to receive the cash flows has expired;
- the right to receive the cash flows is retained, but an obligation to pay them to a third party under a 'pass-through' arrangement is assumed; or
- the group transfers the right to receive the cash flows, and also transfers either all the risks and rewards, or control over the asset.

When the group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the group's continuing involvement in the asset.

Accounting policies continued

In that case, the group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the group could be required to repay.

Impairment of financial assets

The group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and the loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost the group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that impairment has occurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the group. If in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the income statement.

Available-for-sale financial assets

For available-for-sale financial investments, the group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original costs of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in other comprehensive income.

Accounting policies continued

FINANCIAL LIABILITIES

Initial recognition and measurement

Financial liabilities within the scope of IFRS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The group has classified financial liabilities as follows:

Description of liability	Classification
Loans payable and borrowings	Loans and borrowings
Trade and other payables	Loans and borrowings
Loans from subsidiaries	Loans and borrowings

Subsequent measurement

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance cost in the income statement.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

OFFSETTING OF FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and offer price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

An item is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

Assets classified as held for sale are not subsequently depreciated and are held at the lower of their carrying value and fair value less costs to sell.

Accounting policies continued

A discontinued operation is a separate major line of business or geographical area of operation that has been disposed of, or classified as held for sale, as part of a single co-ordinated plan. Alternatively, it could be a subsidiary acquired exclusively with a view to resale.

INVENTORIES

Inventories are stated at the lower of cost or net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials	Purchase cost on a first-in, first-out basis
Finished goods and work in progress	Cost of direct material and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs and are carried at standard cost

Consumables are written down with regard to their age, condition and utility.

Costs of inventories include the transfer from equity of gains and losses on qualifying cash flow hedges in respect of the purchases of raw materials.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated completion and selling costs.

PROVISIONS

Provisions are recognised when the group has a present legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Where the group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

LEASES

At inception date an arrangement is assessed to determine whether it is, or contains, a lease. An arrangement is accounted for as a lease where it is dependent on the use of a specific asset and it conveys the right to use that asset.

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred from the lessor to the group as lessee. Finance lease assets and liabilities are recognised at the lower of the fair value of the leased property or the present value of the minimum lease payments. Finance lease payments are allocated, using the effective interest rate method, between the lease finance cost, which is included in financing costs, and the capital repayment, which reduces the liability to the lessor.

Capitalised lease assets are depreciated in line with the group's stated depreciation policy. If there is no reasonable certainty that the group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of its estimated useful life and lease term.

Operating leases are those leases which do not fall within the scope of the above definition. Operating lease rentals are charged against trading profit on a straight-line basis over the lease term.

Accounting policies continued

REVENUE

Revenue comprises turnover, dividend income and interest income. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received/receivable excluding value-added tax, normal discounts, rebates, settlement discounts, promotional allowances, and internal revenue which is eliminated on consolidation.

Turnover from the sale of goods is recognised when the significant risks and rewards of ownership have passed to the buyer.

Dividend income is recognised when the group's right to receive payment is established.

Interest income is accrued on a time basis recognising the effective rate applicable on the underlying assets.

BORROWING COSTS

Borrowing costs are recognised as an expense when incurred.

INCOME TAXES

The income tax expense represents the sum of current tax payable, deferred tax and secondary taxation on companies.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The current tax is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Current tax relating to items recognised directly in equity is recognised in comprehensive income and not in the income statement.

Deferred income tax

Deferred tax is calculated on the balance sheet liability method, using the difference between the carrying amounts of assets and liabilities and their corresponding tax base used in the computation of taxable profit.

Deferred tax liabilities are recognised for taxable temporary differences:

- except where the liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- except in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled, and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, where it is probable that the asset will be utilised in the foreseeable future:

- except where the asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- except in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, only to the extent that it is probable that the differences will reverse in the foreseeable future, and taxable profit will be available against which these differences can be utilised.

Accounting policies continued

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Unrecognised deferred tax assets are reassessed at each balance sheet date and recognised to the extent it has become probable that future taxable profit will allow the asset to be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on tax rates/laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax relating to items recognised directly in equity is recognised in comprehensive income and not in the income statement. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset and they relate to income taxes levied by the same taxation authority and the group intends to settle its current tax assets and liabilities on a net basis.

Secondary tax on companies

Secondary taxation on companies (STC) on dividends declared is accrued in the period in which the dividend is declared. Non-resident shareholders' taxation is provided in respect of foreign dividends receivable, where applicable.

Value added tax

Revenues, expenses and assets are recognised net of the amount of value added tax except:

- where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

EMPLOYEE BENEFITS

When an employee has rendered a service during the accounting period, benefits are recognised as an expense in the income statement in the year under review.

A liability is recognised when an employee has rendered services for benefits to be paid in the future, and an expense when the entity consumes the economic benefit arising from the service provided by the employee.

In respect of defined contribution plans, the contribution paid by the company is recognised as an expense. If the employee has rendered the service, but the contribution has not yet been paid, the amount payable is recognised as a liability.

In respect of defined benefit plans, the company's contributions are based on the recommendations of independent actuaries as determined using the projected unit credit actuarial valuation method.

Actuarial gains and losses are recognised in the income statement when the net cumulative unrecognised actuarial gains and losses for each individual plan at the end of the previous reporting period exceed 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognised over the expected average remaining working lives of the employees participating in the plans.

Past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits vest immediately following the introduction of, or changes to, a defined benefit plan, the past service cost is recognised immediately.

The defined benefit asset or liability recognised in the balance sheet comprises the present value of the defined benefit obligation, plus any unrecognised actuarial gains (minus actuarial losses), less unrecognised past service costs net actuarial losses and the fair value of plan assets out of which the obligations are to be settled. The value of an asset recognised is

Accounting policies continued

restricted to the sum of the unrecognised past service costs and unrecognised actuarial gain or loss and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions.

POST-RETIREMENT MEDICAL OBLIGATIONS

The group provides post-retirement health-care benefits to certain of its retirees based on the qualifying employee remaining in service up to retirement age. The expected costs of these benefits are accrued over the period of employment, using the projected unit credit method. Valuations are based on assumptions which include employee turnover, mortality rates, discount rate based on current bond yields of appropriate terms, healthcare inflation costs and rates of increase in salary costs. Valuations of these obligations are carried out by independent qualified actuaries.

Actuarial gains or losses are recognised in the same manner as those of pension obligations.

SHARE-BASED PAYMENTS

Certain employees (including senior executives) of the group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity-settled transactions) or share appreciation rights (cash-settled transactions).

Equity-settled share options granted before 7 November 2002

No expense is recognised in the income statement for such awards.

The group has taken advantage of the voluntary exemption provision of IFRS 1 *First-time Adoption of International Financial Reporting Standards* in respect of equity-settled awards and has applied IFRS 2 *Share-based Payment* only to equity-settled awards granted after 7 November 2002 that had not vested on 1 January 2005.

Equity-settled and cash-settled share options granted after 7 November 2002

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuer using a modified version of the Black-Scholes model, further details of which are given in note 29.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting date). The cumulative expense recognised reflects the extent to which the vesting period has expired and the group's best estimate of the number of equity instruments that will ultimately vest. The income statement charge for a period represents the movement in the cumulative expense at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest except where vesting is conditional on a market condition.

Where the terms of an equity-settled award are modified, the expense is recognised as if the terms had not been modified. If at the date of modification, the total fair value of the share-based payment is increased, or is otherwise beneficial to the employee, the difference is recognised as an additional expense.

Where an equity-settled award is cancelled (other than forfeiture), it is treated as if it had vested on the date of cancellation, and any unrecognised expense recognised immediately. However, if a new award is substituted and designated as a replacement for the cancelled award, the cancelled and new awards are treated as if they were a modification of the original award, as described above.

The dilutive effect of outstanding equity-settled options is reflected as additional share dilution in the computation of earnings and headline earnings per share.

Accounting policies continued

Cash-settled transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date using a modified version of the Black-Scholes model, taking into account the terms and conditions upon which the instruments were granted (see note 29). This fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is remeasured at each balance sheet date up to and including the settlement date with changes in fair value recognised in profit or loss.

Accounting for BEE transactions

Where equity instruments are issued to a Black Economic Empowerment (BEE) party at less than fair value, the instruments are accounted for as share-based payments in terms of the stated accounting policy.

Any difference between the fair value of the equity instrument issued and the consideration received is accounted for as an expense in the income statement.

A restriction on the BEE party to transfer the equity instrument subsequent to its vesting is not treated as a vesting condition, but is factored into the fair value determination of the instrument.

BEE transactions are accounted for as “equity settled” share-based payments and are treated the same as the equity-settled transactions.

CONTINGENT ASSETS AND CONTINGENT LIABILITIES

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the company. Contingent assets are not recognised as assets.

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the company. Alternatively it may be a present obligation that arises from past events but is not recognised because an outflow of economic benefits to settle the obligation is not probable, or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are not recognised as liabilities unless they are acquired as part of a business combination.

POST-BALANCE SHEET EVENTS

Recognised amounts in the financial statements are adjusted to reflect events arising after the balance sheet date that provide evidence of conditions that existed at the balance sheet date. Events after the balance sheet that are indicative of conditions that arose after the balance sheet date are dealt with by way of a note.

CONSOLIDATION OF SPECIAL PURPOSE ENTITIES

The special purpose entity established in terms of the share options scheme has been consolidated in the group results.

The substance of the relationship between the company and this entity has been assessed, and the decision made that it is deemed to be a controlled entity.

SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the group’s accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Accounting policies continued

Carrying value of goodwill, tangible and intangible assets

Goodwill and indefinite life intangible assets are tested for impairment bi-annually, while tangible assets and finite life intangible assets are tested annually or when there is an indicator of impairment. The calculation of the recoverable amount requires the use of estimates and assumptions concerning the future cash flows which are inherently uncertain and could change over time. In addition, changes in economic factors such as discount rates could also impact this calculation.

Residual values and useful lives of tangible and intangible assets

Residual values and useful lives of tangible and intangible assets are assessed on an annual basis. Estimates and judgements in this regard are based on historical experience and expectations of the manner in which assets are to be used, together with expected proceeds likely to be realised when assets are disposed of at the end of their useful lives. Such expectations could change over time and therefore impact both depreciation charges and carrying values of tangible and intangible assets in the future.

Fair value of BEE share allocations

In calculating the amount to be expensed as a share-based payment, the group was required to calculate the fair value of the equity instruments granted to the BEE participants in terms of the staff empowerment transaction implemented in October 2005 by Tiger Brands, when Adcock Ingram was still part of the Tiger Brands group. The Black Managers' Trust is valued at fair value using the underlying share price.

Share-based payments

The group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them. The assumptions and models used are disclosed in note 29.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Pension and other post-employment benefits

The cost of defined benefit pension plans and other post-employment medical benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

Provisions

Best estimates, being the amount that the group would rationally pay to settle the obligation, are recognised as provisions at the balance sheet date. Risks, uncertainties and future events, such as changes in law and technology, are taken into account by management in determining the best estimates. Where the effect of discounting is material, provisions are discounted. The discount rate used is the pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability, all of which requires management judgement.

The establishment and review of the provisions requires significant judgement by management as to whether or not a reliable estimate can be made of the amount of the obligation.

The group is required to record provisions for legal or constructive contingencies when the contingency is probable of occurring and the amount of the loss can be reasonably estimated. Liabilities provided for legal matters require judgements regarding projected outcomes and ranges of losses based on historical experience and recommendations of legal counsel. Litigation is however unpredictable and actual costs incurred could differ materially from those estimated at the balance sheet date.

Accounting policies continued

STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE

The following IFRS and IFRIC interpretations have been issued by the IASB and are likely to affect future annual reports, although none are expected to have a material impact on the results or financial position of the group. The group has not early adopted any of these standards and interpretations and will adopt these on the effective dates if applicable.

IAS 23 (Revised)

Borrowing Costs was issued in March 2007 and will be implemented prospectively from 1 October 2009. It requires borrowing costs attributable to the acquisition or construction of certain assets to be capitalised. No impact is expected on the financial results.

IFRS 3 (Revised)

Business Combinations (2008), issued in January 2008, will apply to business combinations from 1 October 2009. It incorporates the following changes that are likely to be relevant to the group's operations:

- The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations;
- Contingent consideration will be measured at fair value, with subsequent changes therein recognised in the income statement;
- Transaction costs, other than share and debt issue costs, will be expensed as incurred;
- Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognised in the income statement; and
- Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

IAS 27 (Revised)

Consolidated and Separate Financial Statements was issued in January 2008 and will be implemented at the same time as IFRS 3 (Revised). In respect of transactions with a non-controlling interest in group entities that do not result in a change of control, the revised Standard requires that the difference between the consideration paid or received and the recorded non-controlling interest is recognised in equity. In the case of divestment of a subsidiary, any retained interest will be remeasured to fair value and the difference between fair value and the previous carrying value will be recognised immediately in the income statement.

IFRS 3 (Revised) and IAS 27 (Revised) will both be applied prospectively to transactions occurring after the implementation date. It is therefore not possible to assess in advance their impact on the financial statements of the group.

IFRS 2 (Revised)

Share-based Payment was amended to clarify the terms "vesting conditions" and "cancellations" as follows:

- vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions; and
- all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. Under IFRS 2, a cancellation of equity instruments is accounted for as an acceleration of the vesting period. Therefore any amount unrecognised that would otherwise have been charged is recognised immediately.

The standard is not expected to have a material impact on the group's and company's financial results or disclosures and will be effective 1 October 2009.

Accounting policies continued

IFRS 9 (Amendment) *Financial Instruments: Recognition and Measurement.* In November 2009 the IASB published IFRS 9 which deals with the classification and measurement of financial assets. This standard is part of the IASB's project to replace IAS 39. In order to expedite the replacement of IAS 39, the IASB divided the project into phases. The main focus of the first phase, which resulted in IFRS 9, is the classification and measurement of financial assets. The board's work on the other phases is currently ongoing, and includes: impairment of financial instruments, hedge accounting, financial liabilities and derecognition.

This standard addresses the classification and measurement of financial instruments. The standard is expected to have an impact on the group financial statements. The group will need to consider its financial assets in light of its business model for managing such assets, as well as the cash flow characteristics of such instruments, in determining the appropriate classification and measurement of these items.

IFRS 9 will be effective for the group from 1 October 2013, with early adoption of Phase 1 permitted for the reporting periods ending 30 September 2010.

IAS 24 (Amendment) *Related Party Disclosures – Amendments to IAS 24.* The IASB has issued a revised version of IAS 24 *Related Party Disclosures* that clarifies and simplifies the definition of a related party. This standard may have an impact on the disclosure of related parties.

The amendments become applicable for the group on 1 October 2011 and should be applied retrospectively.

IAS 32 (Amendment) *Financial Instruments: Presentation.* The Amendment alters the definition of a financial liability in IAS 32 to classify rights issues and certain options or warrants (together, here termed rights) as equity instruments. This is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, in order to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. By changing the definition of a liability, these rights are no longer considered derivative instruments. Their fair value adjustments will no longer impact profit or loss. This amendment is unlikely to have an impact on the group.

The Amendment will be effective for the group from 1 October 2010. Early application is permitted. The Amendment, once effective, is to be applied retrospectively.

IAS 39 (Amendment) *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*, effective for the group for the 2010 financial statements, clarifies that inflation may only be hedged in instances where changes in inflation are contractually specified portions of cash flows or a recognised financial instrument. It also clarifies that an entity is permitted to designate purchased or net purchased options as a hedging instrument in a hedge of a financial or non-financial item and to improve effectiveness, an entity is allowed to exclude the time value of money from the hedging instrument. This is not expected to have a material impact on the group.

Consolidated group income statements

for the years ended 30 September

	Note	2009 R'000	*Pro forma* 2008 R'000	Statutory[1] 2008 R'000
Revenue	1	**4 115 265**	3 463 333	1 772 659
Turnover	1	**4 005 153**	3 300 894	1 758 808
Cost of sales		**(1 968 238)**	(1 478 123)	(813 272)
Gross profit		**2 036 915**	1 822 771	945 536
Selling and distribution expenses		**(421 969)**	(365 295)	(193 277)
Marketing expenses		**(130 026)**	(115 286)	(65 765)
Research and development expenses		**(64 472)**	(56 245)	(33 066)
Fixed and administrative expenses		**(375 619)**	(281 312)	(151 879)
Operating profit		**1 044 829**	1 004 633	501 549
Finance income	2.1	**100 493**	151 739	11 042
Finance costs	2.2	**(118 224)**	(188 406)	(67 666)
Dividend income	1	**9 619**	10 700	2 809
Profit before taxation and abnormal items	3	**1 036 717**	978 666	447 734
Abnormal items	4	**–**	(71 295)	(17 791)
Profit before taxation		**1 036 717**	907 371	429 943
Taxation	5	**(246 835)**	(243 996)	(105 209)
Net profit for the year		**789 882**	663 375	324 734
Attributable to:				
Owners of the parent		**782 396**	653 087	318 399
Minority interests		**7 486**	10 288	6 335
		789 882	663 375	324 734
Basic earnings per ordinary share (cents)	6.1	**451,7**	378,5	184,4
Diluted basic earnings per ordinary share (cents)	6.2	**450,1**	376,1	183,3
Headline earnings per ordinary share (cents)	6.3	**450,0**	387,6	195,6
Diluted headline earnings per ordinary share (cents)	6.4	**448,4**	385,2	194,3

[1] *Statutory represents six months of trading.*

Consolidated group statements of comprehensive income

for the years ended 30 September

	Note	2009 R'000	*Pro forma* 2008 R'000	Statutory[1] 2008 R'000
Net profit for the year		**789 882**	663 375	324 734
Other comprehensive income		**(12 910)**	5 523	(4 284)
Exchange differences on translation of foreign operations	18	**(5 045)**	1 735	(5 097)
Movement in cash flow hedge accounting reserve, net of tax	18	**(7 865)**	4 004	813
Legal reserves and other	18	–	(216)	–
Total comprehensive income for the year, net of tax		**776 972**	668 898	320 450
Attributable to:				
Owners of the parent		**769 486**	658 610	314 115
Minority interests		**7 486**	10 288	6 335
		776 972	668 898	320 450

[1] Statutory represents six months of trading.

Consolidated group balance sheets

at 30 September

	Note	2009 R'000	Statutory/ *Pro forma* 2008 R'000
ASSETS			
Property, plant and equipment	8	**599 746**	452 019
Deferred tax	9	**20 030**	12 447
Investments	10	**138 037**	138 037
Investment in associate	11	**12 200**	–
Intangible assets	12	**304 240**	222 186
Non-current assets		**1 074 253**	824 689
Inventories	13	**583 704**	566 580
Trade and other receivables	14	**1 036 605**	915 585
Cash and cash equivalents	15	**692 938**	406 025
Current assets		**2 313 247**	1 888 190
Total assets		**3 387 500**	2 712 879
EQUITY AND LIABILITIES			
Capital and reserves			
Issued share capital	16	**17 363**	17 306
Share premium	17	**1 203 854**	1 193 662
Non-distributable reserves	18	**77 494**	77 306
Retained income		**1 001 942**	340 117
Total shareholders' funds		**2 300 653**	1 628 391
Minority interests		**24 943**	22 612
Total equity		**2 325 596**	1 651 003
Long-term liabilities	19	**117 076**	277 833
Post-retirement medical liability	20	**14 298**	13 698
Deferred tax	9	**6 683**	4 013
Non-current liabilities		**138 057**	295 544
Bank overdraft	15	**221**	10 727
Trade and other payables	21	**630 743**	543 401
Short-term borrowings	19	**194 405**	161 119
Provisions	22	**68 752**	30 719
Taxation payable		**29 726**	20 366
Current liabilities		**923 847**	766 332
Total equity and liabilities		**3 387 500**	2 712 879

Consolidated group cash flow statements

for the years ended 30 September

	Note	2009 R'000	*Pro forma* 2008 R'000	Statutory[1] 2008 R'000
Cash flows from operating activities				
Operating profit before working capital changes	23.1	**1 176 280**	1 071 686	576 740
Cash related abnormal items	23.6	**–**	(53 504)	–
Working capital changes	23.2	**(46 120)**	(276 702)	(255 361)
Cash generated from operations		**1 130 160**	741 480	321 379
Finance income	2.1	**100 493**	151 739	11 042
Finance costs	2.2	**(118 224)**	(188 406)	(67 666)
Dividend income	1	**9 619**	10 700	2 809
Dividends paid	23.3	**(125 726)**	(42 725)	(11 016)
Taxation paid	23.4	**(242 635)**	(233 712)	(49 170)
Net cash inflow from operating activities		**753 687**	439 076	207 378
Cash flows from investing activities				
(Increase)/decrease in Black Managers' Trust		**–**	(16 343)	38 607
Purchase of intangible assets	12	**(11 025)**	(18 756)	(18 350)
Cost of business acquired	23.5	**(79 049)**	(31 930)	(101 180)
Purchase of property, plant and equipment		**(228 609)**	(230 387)	(162 013)
Proceeds on disposal of property, plant and equipment		**4 163**	17 361	8 831
Cost of investment in associate	11	**(12 200)**	–	–
Net cash outflow from investing activities		**(326 720)**	(280 055)	(234 105)
Cash flows from financial activities				
Proceeds from issue of share capital		**10 249**	1 210 968	6 599
(Increase)/decrease in amounts owing by related parties		**–**	(133 057)	475 150
Repayment of borrowings		**(138 966)**	(79 513)	(55 440)
Net cash (outflow)/inflow from financing activities		**(128 717)**	998 398	426 309
Net increase in cash and cash equivalents		**298 250**	1 157 419	399 582
Net foreign exchange difference on cash and cash equivalents		**(831)**	–	–
Foreign currency translation reserve		**–**	1 735	(5 097)
Movement in hedge accounting reserve		**–**	4 004	813
Cash and cash equivalents at beginning of year		**395 298**	(767 860)	–
Cash and cash equivalents at end of year	15	**692 717**	395 298	395 298

[1] *Statutory represents six months of trading.*

Consolidated group statement of changes in equity

for the years ended 30 September

		Attributable to equity holders of the parent						
	Note	Share capital R'000	Share premium R'000	Retained income R'000	Non-distributable reserves R'000	Total attributable to ordinary shareholders R'000	Minority interests R'000	Total R'000
STATUTORY 2008								
1 April 2008[1]		17 248	1 187 121	32 018	73 849	1 310 236	16 277	1 326 513
Share issue		58	8 431			8 489		8 489
Capital distribution out of share premium	17		(1 890)			(1 890)		(1 890)
Share-based payment expense	18				7 741	7 741		7 741
Total comprehensive income				318 399	(4 284)	314 115	6 335	320 450
Dividends	7			(10 300)		(10 300)		(10 300)
Balance at 30 September 2008		17 306	1 193 662	340 117	77 306	1 628 391	22 612	1 651 003
2009								
Share issue		57	10 192			10 249		10 249
Share-based payment expense	18				13 098	13 098		13 098
Total comprehensive income				782 396	(12 910)	769 486	7 486	776 972
Dividends	7			(120 571)		(120 571)	(5 155)	(125 726)
Balance at 30 September 2009		**17 363**	**1 203 854**	**1 001 942**	**77 494**	**2 300 653**	**24 943**	**2 325 596**

[1] *Refer to bases of preparation.*

Notes to the group annual financial statements

for the year ended 30 September

	2009 R'000	*Pro forma* 2008 R'000	Statutory 2008 R'000
1. REVENUE			
Revenue comprises			
Turnover	**4 005 153**	3 300 894	1 758 808
Finance income (note 2.1)	**100 493**	151 739	11 042
Dividend income	**9 619**	10 700	2 809
	4 115 265	3 463 333	1 772 659
2. FINANCE INCOME AND FINANCE COSTS			
2.1 Finance income			
Interest received	**97 656**	146 054	8 102
Preference share dividends	**2 837**	5 685	2 940
	100 493	151 739	11 042
2.2 Finance costs			
Borrowings	**(56 102)**	(67 168)	(31 398)
Finance leases	**–**	(16)	(3)
Bank	**(62 095)**	(114 107)	(30 486)
Receiver of Revenue	**(15)**	–	–
Creditors	**(12)**	(7 115)	(5 779)
	(118 224)	(188 406)	(67 666)
3. PROFIT BEFORE TAXATION AND ABNORMAL ITEMS			
3.1 Profit before taxation and abnormal items has been arrived at after charging the following:			
Expenses			
External auditor's remuneration			
– Audit fees	**6 193**	6 711	3 154
– Taxation services	**117**	–	–
– Other services	**21**	43	28
Depreciation			
– Freehold land and buildings	**3 808**	8 225	4 480
– Leasehold improvements	**4 527**	934	635
– Plant and equipment	**45 759**	38 054	14 007
– Computers	**18 124**	6 775	6 900
– Furniture and fittings	**963**	996	3 722
Amortisation of intangibles	**9 589**	13 624	7 041
Fees relating to unbundling	**–**	6 000	6 000
Royalties paid	**40 653**	39 561	21 655
Share-based payment expense	**32 669**	21 045	11 962
Operating lease charges			
– Equipment	**3 255**	10 598	4 454
– Property	**26 407**	25 568	13 596
Foreign exchange loss/(profit)	**2 552**	(14 938)	(5 173)
Fees paid to related parties[1]	**–**	55 083	17 846
(Profit)/loss on disposal of property, plant and equipment	**(3 050)**	(2 040)	1 428
Total staff costs[2]	**550 882**	502 912	262 199
Employers' contribution to defined contribution retirement funding	**46 948**	43 899	23 618
Employers' contribution to medical aid	**21 999**	23 470	11 851

[1] This relates to fees paid to Tiger Brands whilst part of the Tiger Brands Group.

[2] Total staff costs include contributions made to retirement funding and medical aid.

Notes to the group annual financial statements continued

for the year ended 30 September

	2009 R'000	*Pro forma* 2008 R'000	Statutory 2008 R'000
3. PROFIT BEFORE TAXATION AND ABNORMAL ITEMS continued			
3.2 Directors' emoluments			
Executive directors	**5 856**	7 389	4 421
Non-executive directors	**2 003**	1 675	505
Total	**7 859**	9 064	4 926
For more details, please refer to page 53.			
3.3 Key management			
Salaries and bonuses	**11 590**	7 709	3 951
Retirement, medical and other benefits	**1 746**	1 471	790
Total	**13 336**	9 180	4 741
For more details, please refer to page 55.			
4. ABNORMAL ITEMS			
Impairment of intangibles	**–**	(17 791)	(17 791)
Competition Commission settlement	**–**	(53 504)	–
	–	(71 295)	(17 791)
5. TAXATION			
Normal taxation			
– current year	**(252 760)**	(255 881)	(118 115)
– prior year over provision	**15 883**	12 697	7 087
Deferred taxation			
– current year	**1 233**	263	263
– prior year over provision	**200**	325	5 922
– rate adjustment	**–**	(279)	(279)
Secondary Tax on Companies	**(11 391)**	(1 034)	–
Foreign withholding tax	**–**	(87)	(87)
Total tax charge	**(246 835)**	(243 996)	(105 209)
Reconciliation of the taxation rate:			
Effective rate (%)	**23,8**	26,9	24,5
Adjusted for:			
Exempt income/allowances (%)	**4,5**	4,0	1,7
Non-deductible expenses (%)	**(1,4)**	(3,9)	(1,3)
Prior year over provision (%)	**1,6**	1,4	3,0
Secondary Tax on Companies (%)	**(1,1)**	(0,1)	–
Other (%)	**0,6**	(0,3)	0,1
South African normal tax rate (%)	**28,0**	28,0	28,0

Notes to the group annual financial statements continued

for the year ended 30 September

	2009 cents	*Pro forma* 2008 cents	Statutory 2008 cents
6. EARNINGS PER SHARE			
6.1 Basic earnings per share The calculation of earnings per share is based on profit attributable to equity holders of Adcock Ingram for the year of R782,4 million (*pro forma* 2008: R653,1 million; statutory 2008: R318,4 million) and 173 206 295 (*pro forma* 2008: 172 554 348; statutory 2008: 172 629 695) weighted average number of shares in issue.	**451,7**	378,5	184,4
6.2 Diluted earnings per share The calculation of diluted earnings per share is based on profit attributable to equity holders of Adcock Ingram for the year of R782,4 million (*pro forma* 2008: R653,1 million; statutory 2008: R318,4 million) and 173 809 998 (*pro forma* 2008: 173 645 503; statutory 2008: 173 720 851) diluted weighted average number of shares in issue.	**450,1**	376,1	183,3
6.3 Headline earnings per share The calculation of headline earnings per share is based on headline earnings of R779,3 million (*pro forma* 2008: R668,8 million; statutory 2008: R337,6 million) and 173 206 295 (*pro forma* 2008: 172 554 348; statutory 2008: 172 629 695) weighted average number of shares in issue.	**450,0**	387,6	195,6
6.4 Diluted headline earnings per share The calculation of diluted headline earnings per share is based on headline earnings of R779,3 million (*pro forma* 2008: R668,8 million; statutory 2008: R337,6 million) and 173 809 998 (*pro forma* 2008: 173 645 503; statutory 2008: 173 720 851) diluted weighted average number of shares in issue.	**448,4**	385,2	194,3
Reconciliation of diluted weighted average number of shares:			
Weighted average number of ordinary shares in issue:			
– Issued shares at the beginning of the year	**173 055 168**	–	–
– Effect of shares issued during the year	**151 127**	172 554 348	172 629 695
Weighted average number of shares outstanding	**173 206 295**	172 554 348	172 629 695
Expected future vesting of shares	**603 703**	1 091 155	1 091 156
Diluted weighted average number of shares outstanding	**173 809 998**	173 645 503	173 720 851

Notes to the group annual financial statements continued

for the year ended 30 September

		2009 R'000	*Pro forma* 2008 R'000	Statutory 2008 R'000
6.	**EARNINGS PER SHARE** continued			
	Reconciliation between earnings and headline earnings:			
	Earnings as reported	**782 396**	653 087	318 399
	Adjustments:			
	Impairment of intangible assets	**–**	17 791	17 791
	Loss/(profit) on disposal of property, plant and equipment	**(3 050)**	(2 040)	1 428
	Headline earnings	**779 346**	668 838	337 618
7.	**DIVIDENDS PAID AND PROPOSED**			
	Declared and paid during the year			
	Dividends paid to equity holders of parent company			
	Interim dividend for 2009: 70 cents per share	**120 571**		
	Dividends paid to minority shareholders	**5 155**		
		125 726		
	Proposed for approval at AGM			
	Dividends on ordinary shares			
	Final dividend for 2009: 80 cents per share	**138 900**		
	In terms of current legislation, this would result in a STC liability of R13,9 million.			
	The following dividends were paid during the previous year before the company became a listed entity:			
	To Tiger Brands Limited – declared 21 November 2007		27 600	–
	To Tiger Brands Limited – declared 30 May 2008		10 300	10 300
	Total paid to equity holders of parent company		37 900	10 300
	Dividends paid to minority shareholders		4 825	–
			42 725	10 300

Notes to the group annual financial statements continued

for the year ended 30 September

	Freehold land and buildings R'000	Leasehold improvements R'000	Plant and equipment R'000	Computers R'000	Furniture and fittings R'000	Total R'000
8. PROPERTY, PLANT AND EQUIPMENT						
2009						
Carrying value at beginning of year						
Cost	196 085	43 871	370 074	51 018	12 599	673 647
Accumulated depreciation	(22 421)	(3 276)	(162 195)	(21 927)	(11 809)	(221 628)
Net book value at beginning of year	173 664	40 595	207 879	29 091	790	452 019
Current year movements – cost						
Transfer	(6 005)	8 139	(2 134)	–	–	–
Additions through business combinations (note 23.5.1)	–	–	299	30	488	817
Additions	41 662	26 597	133 633	22 629	4 088	228 609
Disposals	–	(2 255)	(2 649)	(2 050)	(1 962)	(8 916)
Exchange adjustments	(6 872)	–	(938)	7	6	(7 797)
Cost movement for current year	28 785	32 481	128 211	20 616	2 620	212 713
Current year movements – accumulated depreciation						
Transfer	–	(2 115)	2 115	–	–	–
Depreciation	(3 808)	(4 527)	(45 759)	(18 124)	(963)	(73 181)
Exchange adjustments	155	–	213	16	8	392
Disposals	–	2 146	1 700	2 027	1 930	7 803
Accumulated depreciation movement for current year	(3 653)	(4 496)	(41 731)	(16 081)	975	(64 986)
Carrying value at end of year						
Cost	224 870	76 352	498 285	71 634	15 219	886 360
Accumulated depreciation	(26 074)	(7 772)	(203 926)	(38 008)	(10 834)	(286 614)
Net book value at end of year	198 796	68 580	294 359	33 626	4 385	599 746

Property, plant and equipment to the value of R67,5 million in the India operations have been pledged as security for the long-term liability in the India operations. Refer note 19.

Notes to the group annual financial statements continued

for the year ended 30 September

	Freehold land and buildings R'000	Leasehold improve-ments R'000	Plant and equip-ment R'000	Computers R'000	Furniture and fittings R'000	Total R'000
8. PROPERTY, PLANT AND EQUIPMENT continued						
***Pro forma* 2008**						
Carrying value at beginning of year						
Cost	107 745	4 836	295 463	31 562	14 337	453 943
Accumulated depreciation	(14 136)	(2 342)	(150 962)	(15 297)	(11 199)	(193 936)
Net book value at beginning of year	93 609	2 494	144 501	16 265	3 138	260 007
Current year movements – cost						
Transfer	560	–	(21 389)	–	–	(20 829)
Additions through business combinations (note 23.5.4)	18 839	–	13 091	–	–	31 930
Additions	71 560	39 192	102 832	19 601	(668)	232 517
Disposals	(1 364)	(157)	(19 008)	(145)	(1 070)	(21 744)
Exchange adjustments	(1 255)	–	(915)	–	–	(2 170)
Cost movement for current year	88 340	39 035	74 611	19 456	(1 738)	219 704
Current year movements – accumulated depreciation						
Transfer	(78)	–	20 923	–	(16)	20 829
Depreciation	(8 225)	(934)	(38 054)	(6 775)	(996)	(54 984)
Exchange adjustments	18	–	22	–	–	40
Disposals	–	–	5 876	145	402	6 423
Accumulated depreciation movement for current year	(8 285)	(934)	(11 233)	(6 630)	(610)	(27 692)
Carrying value at end of year						
Cost	196 085	43 871	370 074	51 018	12 599	673 647
Accumulated depreciation	(22 421)	(3 276)	(162 195)	(21 927)	(11 809)	(221 628)
Net book value at end of year	173 664	40 595	207 879	29 091	790	452 019

Notes to the group annual financial statements continued

for the year ended 30 September

	Freehold land and buildings R'000	Leasehold improvements R'000	Plant and equipment R'000	Computers R'000	Furniture and fittings R'000	Total R'000
8. PROPERTY, PLANT AND EQUIPMENT continued						
Statutory 2008						
Current year movements – cost						
Additions through business combinations (note 23.5.3)	155 548	4 558	324 135	31 328	9 893	525 462
Additions	46 812	39 313	62 035	19 690	2 706	170 556
Disposals	(1 364)	–	(12 425)	–	–	(13 789)
Exchange adjustments	(4 911)	–	(3 671)	–	–	(8 582)
Cost movement for current year	196 085	43 871	370 074	51 018	12 599	673 647
Current year movements						
Accumulated depreciation						
Additions through business combinations (note 23.5.3)	(17 957)	(2 641)	(151 741)	(15 027)	(8 087)	(195 453)
Depreciation	(4 480)	(635)	(14 007)	(6 900)	(3 722)	(29 744)
Disposals	–	–	3 530	–	–	3 530
Exchange adjustments	16	–	23	–	–	39
Accumulated depreciation movement for current year	(22 421)	(3 276)	(162 195)	(21 927)	(11 809)	(221 628)
Carrying value at end of year						
Cost	196 085	43 871	370 074	51 018	12 599	673 647
Accumulated depreciation	(22 421)	(3 276)	(162 195)	(21 927)	(11 809)	(221 628)
Net book value at end of year	173 664	40 595	207 879	29 091	790	452 019

The information required by Schedule 4 of the Companies Act in respect of land and buildings and details of valuations are contained in the register of fixed property which is available for inspection by members or their duly authorised agents at the group's registered office.

The land and buildings were independently valued at 30 September 2009 by The Property Partnership. The basis used for the valuation was depreciated replacement cost. There was no indication of impairment. Land and buildings are carried at cost less accumulated depreciation and accumulated impairment. It is the policy of the group to perform revaluation of land and buildings every four years.

Notes to the group annual financial statements continued

for the year ended 30 September

	2009 R'000	*Pro forma* 2008 R'000	Statutory 2008 R'000
9. DEFERRED TAX			
Balance at beginning of year	**8 434**	9 440	–
Additions through business combinations (note 23.5)	**(21)**	–	1 965
Rate adjustment	**–**	(279)	(279)
Income statement movement	**1 433**	588	6 185
Deferred tax adjustment on foreign exchange differences taken to equity	**408**	(20)	–
Revaluations of foreign currency contracts (cash flow hedges) to fair value	**3 058**	–	–
Other	**35**	(1 295)	563
Balance at end of year	**13 347**	8 434	8 434

	2009 R'000	Statutory/ *Pro forma* 2008 R'000
Analysis of deferred tax		
This balance comprises the following temporary differences		
Pension fund surplus receivable	**(1 443)**	(9 004)
Property, plant and equipment	**(11 668)**	(384)
Prepayments	**(440)**	(4 193)
Provisions	**23 508**	20 954
Revaluations of foreign currency contracts (cash flow hedges) to fair value	**3 058**	–
Other	**332**	1 061
	13 347	8 434
Disclosed as follows:		
Deferred tax asset	**20 030**	12 447
Deferred tax liability	**(6 683)**	(4 013)
10. INVESTMENTS		
Black Managers Share Trust	**138 037**	138 037
	138 037	138 037

The investment's fair value can not be determined as it is not quoted on an active market. The investment will be realised once participants start exercising their share allocations as from 1 January 2015.

	2009 R'000
11. INVESTMENT IN ASSOCIATE	
Cost of investment	**12 200**
Share of post acquisition profit net of dividends received	**–**
	12 200

Notes to the group annual financial statements continued

for the year ended 30 September

		Goodwill R'000	Other intangibles R'000	Total R'000
12.	INTANGIBLE ASSETS			
	2009			
	Net balance at beginning of year	**13 736**	**208 450**	**222 186**
	Business combinations (note 23.5.1)	**15 395**	**65 248**	**80 643**
	Additions	**–**	**11 025**	**11 025**
	Exchange adjustment	**(25)**	**–**	**(25)**
	Amortisation	**–**	**(9 589)**	**(9 589)**
	Net balance at end of year	**29 106**	**275 134**	**304 240**
	***Pro forma* 2008**			
	Net balance at beginning of year	13 330	221 515	234 845
	Additions	406	18 350	18 756
	Impairments	–	(17 791)	(17 791)
	Amortisation	–	(13 624)	(13 624)
	Net balance at end of year	13 736	208 450	222 186
	Statutory 2008			
	Net balance at beginning of year	–	–	–
	Business combinations (note 23.5.3)	13 736	214 932	228 668
	Additions	–	18 350	18 350
	Impairments	–	(17 791)	(17 791)
	Amortisation	–	(7 041)	(7 041)
	Net balance at end of year	13 736	208 450	222 186

The useful lives of certain of the above intangibles have been assessed as being indefinite as the economic benefits from these intangibles will not cease, while others have finite lifetimes. When the useful life of the intangible is regarded as finite, the asset is amortised and when indefinite the asset is not amortised but subjected to a bi-annual impairment test.

Other intangibles comprise trademarks, patents and supplier agreements.

Impairment testing of goodwill and other intangible assets

Goodwill acquired through business combinations and trademarks has been allocated to the following two individual reportable segments for impairment testing:

- Pharmaceuticals (Prescription and Over the Counter)
- Hospital

These segments represent the lowest level within the entity at which goodwill is monitored for internal management purposes.

Carrying amount of goodwill and other intangibles allocated to each of the segments:

	Pharmaceutical		Hospital		Total	
	2009 R'000	2008 R'000	2009 R'000	2008 R'000	2009 R'000	2008 R'000
Carrying amount of goodwill	**15 776**	406	**13 330**	13 330	**29 106**	13 736
Carrying amount of other intangibles with indefinite useful lives	**249 659**	173 497	**6 471**	23 823	**256 130**	197 320
Carrying amount of other intangibles with finite useful lives	**21**	5 528	**18 983**	5 602	**19 004**	11 130
Total	**265 456**	179 431	**38 784**	42 755	**304 240**	222 186

Notes to the group annual financial statements continued

for the year ended 30 September

12. INTANGIBLE ASSETS continued

The recoverable amount of the intangible assets has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a ten-year period as management believes that products have a value in use of more than ten years and management believes that these projections, based on past experience, are reliable.

The pre-tax discount rate applied to cash flow projections is: 14,25% (2008: 13,5%)
and cash flows beyond the ten-year period are extrapolated using a 1,0% growth rate (2008: 1,0%).

Key assumptions used in value in use calculations:
The calculation of value in use for both segments is most sensitive to the following assumptions:

- gross margin;
- discount rates;
- raw materials price inflation;
- market share during the budget period; and
- growth rate used to extrapolate cash flows beyond the budget period.

Gross margin
Gross margins are based on average values achieved in the three years preceding the start of the budget period. These are changed over the budget period for anticipated efficiency improvements, and estimated changes to cost of production, raw material costs and selling prices.

Discount rates
Discount rates reflect management's estimates of the risks specific to each unit. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. In determining appropriate discount rates, regard has been given to the yield on a ten-year government bond at the beginning of the budgeted period.

Raw materials price inflation
Estimates are obtained from published indices for the countries from which materials are sourced, as well as data relating to specific commodities. Forecast figures are used if data is publicly available, otherwise past actual raw material price movements have been used as an indicator of the future price movements.

Market share assumptions
These assumptions are important because, as well as using industry data for growth rates, management assesses how the unit's position, relative to its competitors, might change over the budget period. Management expects the group's share of the market to be relatively stable over the budget period.

Growth rate estimates
The growth rates used beyond the next ten-year period is management's best estimate taking market conditions into account.

Sensitivity to changes in assumptions
With regard to the assessment of value in use, management believes that no reasonably foreseeable change in any of the above key assumptions would cause the carrying value of the intangibles to materially exceed their recoverable amounts.

Notes to the group annual financial statements continued

for the year ended 30 September

		2009 R'000	Statutory/ *Pro forma* 2008 R'000
13.	**INVENTORIES**		
	Raw materials	**143 456**	146 543
	Work-in-progress	**24 278**	37 498
	Finished goods	**415 970**	382 539
		583 704	566 580
	The amount of inventories written down recognised as an expense in cost of inventories for 2009 is R27,9 million (Statutory 2008: R7,2 million; *Pro forma* 2008: R11,0 million)		
14.	**TRADE AND OTHER RECEIVABLES**		
	Trade receivables	**956 516**	702 732
	Pension fund surplus	**5 153**	32 156
	Prepayments	**52 482**	24 447
	Other receivables	**41 434**	168 673
	VAT recoverable	**8 332**	25 916
	Bank interest receivable	**6 958**	11 400
	Other	**26 144**	131 357
		1 055 585	**928 008**
	Less: Provision for impairment and credit notes	**(18 980)**	(12 423)
		1 036 605	915 585

Trade receivables are non-interest bearing and are generally on 30 – 90 days terms. The fair value approximates the carrying value.

As at 30 September 2009, trade receivables at nominal value of R0,75 million (2008: R0,70 million) were impaired and fully recognised as an expense. Trade debtors are impaired when the event of recoverability is highly unlikely.

Movements in the provision for impairment and credit notes were as follows:

	Individually impaired R'000	Collectively impaired R'000	Total R'000
Balance at 1 October 2007	(4 248)	(5 529)	(9 777)
Charge for the period 1 October 2007 to 31 March 2008	(4 025)	(2 414)	(6 439)
At 31 March 2008	(8 273)	(7 943)	(16 216)
Charge for the period 1 April 2008 to 30 September 2008	(18)	–	(18)
Unused amounts reversed	3 361	450	3 811
At 30 September 2008	(4 930)	(7 493)	(12 423)
Charge for the year	–	(10 932)	(10 932)
Utilised during the year	–	(6)	(6)
Unused amounts reversed	4 381	–	4 381
At 30 September 2009	**(549)**	**(18 431)**	**(18 980)**

Notes to the group annual financial statements continued

for the year ended 30 September

		2009 R'000	Statutory/ *Pro forma* 2008 R'000
14.	**TRADE AND OTHER RECEIVABLES** continued		
	At 30 September, the age analysis of trade receivables is at follows:		
	Neither past due nor impaired		
	<30 days	**581 172**	446 191
	31 – 60 days	**287 287**	188 267
	61 – 90 days	**20 412**	21 332
	Past due but not impaired		
	91 – 180 days	**23 591**	22 985
	>180 days	**25 074**	11 534
	Total	**937 536**	690 309
15.	**CASH AND CASH EQUIVALENTS**		
	Cash at banks and on hand	**692 938**	406 025
	Bank overdraft	**(221)**	(10 727)
		692 717	395 298

Cash at banks earns interest at floating rates based on daily bank deposit rates.

The fair value of cash is R692,7 million (2008: R395,3 million).

In the prior year cash and cash equivalents included a R60 million investment in preference shares, earning interest at 64% of the prime lending rate. These shares were redeemed on 31 March 2009.

			2009 R'000	Statutory/ *Pro forma* 2008 R'000
16.	**SHARE CAPITAL**			
	Authorised			
	250 000 000 shares of R0,10 each		**25 000**	25 000
	Issued			
	173 625 578 (2008: 173 055 168) shares of R0,10 each		**17 363**	17 306
	Balance at beginning of year	173 055 168		
	Issued shares increased as follows:			
	12 June	307 310		
	29 June	150 500		
	08 July	1 333		
	13 July	11 400		
	15 July	41 400		
	16 July	28 067		
	29 July	3 000		
	30 July	700		
	19 August	3 400		
	31 August	3 300		
	30 September	20 000		
	Balance at the end of the year	173 625 578		

The issued share capital increased as a result of share options exercised.

Notes to the group annual financial statements continued

for the year ended 30 September

		2009 R'000	Statutory/ *Pro forma* 2008 R'000
17.	**SHARE PREMIUM**		
	Balance at the beginning of the year	**1 193 662**	–
	Issues of shares	**10 192**	1 195 552
	Capital distribution out of share premium	**–**	(1 890)
		1 203 854	1 193 662

		Share-based payment reserve R'000	Cash flow hedge accounting reserve R'000	Capital redemption reserve R'000	Foreign currency translation reserve R'000	Legal reserves and other R'000	Total R'000
18.	**NON-DISTRIBUTABLE RESERVES**						
	Balance at 1 October 2007	29 098	(487)	3 919	–	26 589	59 119
	Movement: 1 October 2007 – 31 March 2008	4 923	3 191	–	6 832	(216)	14 730
	Acquired through business combination (note 23.5.3)	34 021	2 704	3 919	6 832	26 373	73 849
	Movement: 1 April 2008 – 30 September 2008	7 741	813	–	(5 097)	–	3 457
	Balance at 30 September 2008	41 762	3 517	3 919	1 735	26 373	77 306
	Movement during the year	13 098	(10 923)	–	(5 045)	–	(2 870)
	Tax effect of net movement on cash flow hedge	–	3 058	–	–	–	3 058
	Balance at 30 September 2009	**54 860**	**(4 348)**	**3 919**	**(3 310)**	**26 373**	**77 494**

Share-based payment reserve

The share-based payment reserve represents the accumulated charge for share options in terms of IFRS 2 for the equity-settled scheme.

Cash flow hedge accounting reserve

The cash flow hedge accounting reserve comprises the portion of the cumulative net change in the fair value of derivatives designated as effective cash flow hedging relationships where the hedged item has not yet affected the income statement.

Capital redemption reserve

The capital redemption reserve fund was created as a result of revaluation of shares in subsidiaries.

Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

Legal reserves and other

This represents an unutilised merger reserve created when Premier Pharmaceuticals and Adcock Ingram merged.

Notes to the group annual financial statements continued

for the year ended 30 September

	2009 R'000	Statutory/ *Pro forma* 2008 R'000
19. LONG-TERM LIABILITIES		
Secured loan in India Joint Venture bearing interest at 0,25% below the bank's lending rate, currently at a rate of 12%, repayable in quarterly instalments over five years with the first instalment paid in December 2008. The loan is secured by fixed assets and to the extent that fixed assets cannot cover the liability, current assets. Refer note 8.	**41 164**	30 453
Secured loan bearing interest at a fixed rate of 15,5% per annum repayable by October 2010	**270 317**	408 499
	311 481	438 952
Less: Current portion included in short-term borrowings	**(194 405)**	(161 119)
	117 076	277 833

	Secured loan at fixed interest rate 2009 R'000	Secured loan at variable interest rate 2009 R'000	Total 2009 R'000	Secured loan at fixed interest rate 2008 R'000	Secured loan at variable interest rate 2008 R'000	Total 2008 R'000
Repayments of secured loans						
– payable within 12 months	**177 682**	**16 723**	**194 405**	155 028	6 091	161 119
– payable within 12 – 24 months	**92 635**	**7 643**	**100 278**	160 836	6 091	166 927
– payable thereafter	**–**	**16 798**	**16 798**	92 635	18 271	110 906
	270 317	**41 164**	**311 481**	408 499	30 453	438 952

20. RETIREMENT AND POST-RETIREMENT BENEFIT PLANS

Pension obligations

The company and its subsidiaries contribute to a retirement contribution plan for all employees. These contributions are expensed. In addition, the company and its subsidiaries contribute to a retirement benefit fund in respect of certain retirees. The defined benefit plans are funded. The assets of the funds are held in independent trustee administered funds, administered in terms of the Pension Funds Act of 1956 (Act 24), as amended. Funds, must in terms of the Pension Funds Act, be valued at least every three years.

For purposes of production of these disclosures, and in order to comply with the requirements of IAS 19, valuations have been performed by independent actuaries, using the projected unit credit method. Where valuations were not possible due to the limited availability of complete data, roll forward projections of prior completed actuarial valuations were used, taking account of actual subsequent experience.

The disclosure of the funded status is for accounting purposes only, and does not necessarily indicate any assets available to the group.

Once a surplus apportionment exercise is completed, and approved by the Registrar of Pension Funds in terms of the provision of the Pension Funds Second Amendment Act, 2001, only at that stage would it be appropriate for the group to recognise any assets in respect of the retirement funds, to the extent that the group is apportioned such assets. Furthermore, "improper uses" of surplus, if any, as contemplated in terms of the Pension Funds Second Amendment Act insofar as minimum individual reserves are concerned, have not been taken into account. This legislation is not applicable to arrangements not registered in terms of the Pension Funds Act, such as special purposes entities established for purposes of providing disability benefits.

Notes to the group annual financial statements continued

for the year ended 30 September

20. RETIREMENT AND POST-RETIREMENT BENEFIT PLANS continued

Post-retirement medical obligations

The company and its subsidiaries operate post-employment medical benefit schemes that cover certain of their employees and retirees who were originally employed prior to certain cut off dates. The liabilities are valued annually using the projected unit credit method. The latest full actuarial valuation was performed on 30 September 2008.

The following table summarises the components of net benefit expense recognised in the income statement and the funded status and amounts recognised in the balance sheet for the respective plans:

	Defined benefit plan 2009 R'000	Post-retirement medical aid 2009 R'000	Defined benefit plan 2008 R'000	Post-retire-ment medical aid 2008 R'000
Net benefit expense/(income)				
Current service cost	–	27	–	16
Interest cost on benefit obligation	683	1 211	661	919
Expected return on plan assets	(8 504)	–	(6 446)	–
Effect of paragraph 58 and 58A	5 134	–	2 152	811
	(2 687)	1 238	(3 633)	1 746
Actual return on plan assets	32 491	–	6 350	–
Benefit asset/(liability)				
Defined benefit obligation	(7 581)	(14 298)	(7 453)	(13 698)
Fair value of plan assets	20 145	–	92 007	–
	12 564	(14 298)	84 554	(13 698)
Unrecognised actuarial gains	–	–	(3 557)	–
Asset not recognised at balance sheet date	(7 411)	–	(48 841)	–
	5 153	(14 298)	32 156	(13 698)
Changes in the present value of the defined benefit obligation are as follows:				
Defined benefit obligation at 1 October	(7 453)	(13 698)	(17 736)	(12 830)
Interest cost	(683)	(1 211)	(661)	(919)
Current service cost	–	(27)	–	(16)
Benefits paid	143	994	9 770	878
Unrecognised actuarial (gains)/losses on obligation	412	(356)	1 174	(811)
Defined benefit obligation at 30 September	(7 581)	(14 298)	(7 453)	(13 698)

Notes to the group annual financial statements continued

for the year ended 30 September

	Defined benefit plan 2009 R'000	Defined benefit plan 2008 R'000
20. RETIREMENT AND POST-RETIREMENT BENEFIT PLANS continued		
Changes in the fair value of plan assets are as follows:		
Fair value of plan assets at 1 October	**92 007**	85 790
Expected return	**8 504**	6 446
Utilisation of asset for defined contribution fund	**(29 650)**	–
Benefits paid	**(143)**	(9 770)
Actuarial (loss)/gains	**(50 573)**	9 541
Fair value of plan assets at 30 September	**20 145**	92 007

The assumptions used in the valuations are as follows:

	2009 %	2008 %
Discount rate		
Defined benefit plan	**9,25**	9,25
Post-retirement medical aid	**9,25**	9,25
Expected rate of return on assets		
Defined benefit plan	**9,25**	9,25
Post-retirement medical aid	**–**	–
Future salary increases		
Defined benefit plan	**6,75**	6,75
Post-retirement medical aid	**7,25**	7,25
Future pension increases		
Defined benefit plan	**4,05**	4,05
Healthcare cost inflation	**7,25**	6,75
Post-retirement mortality table	**PA (90) ultimate table**	PA (90) ultimate table

A one percentage point change in the assumed rate of increase in healthcare costs would have the following effects:

	Increase 2009 R'000	Decrease 2009 R'000	Increase 2008 R'000	Decrease 2008 R'000
Effect on the aggregate current service cost and interest cost	**120**	**(102)**	132	(113)
Effect on the defined benefit obligation	**1 320**	**(1 142)**	1 352	(1 158)

Notes to the group annual financial statements continued

for the year ended 30 September

	2009 R'000	Statutory/ *Pro forma* 2008 R'000
21. TRADE AND OTHER PAYABLES		
Trade accounts payable	**320 388**	331 714
Other payables	**310 355**	211 687
Accrued expenses	**106 668**	108 236
Cash-settled options	**26 750**	7 179
VAT payable	**30 259**	–
Deferred portion of purchase price of business combinations (note 23.5)	**40 200**	–
Other	**106 478**	96 272
	630 743	543 401

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and are normally settled on average 45 day terms.
- Other payables are non-interest bearing and have an average term of six months.
- Accrued expenses are non-interest bearing and have an average term of six months.

At 30 September 2009, the undiscounted cash flows of trade and other payables are as follows:

	2009 R'000	Statutory/ *Pro forma* 2008 R'000
<30 days	**296 939**	238 751
31 – 60 days	**114 135**	172 570
61 – 90 days	**50 979**	86 396
>90 days	**168 690**	45 684
	630 743	543 401

	2009 R'000	Statutory/ *Pro forma* 2008 R'000
22. PROVISIONS		
Leave pay	**35 195**	30 719
Bonus and incentive scheme	**33 557**	–
	68 752	30 719
Made up as follows:		
Leave pay provision		
Balance at beginning of year	**30 719**	29 549
Arising during the year	**8 179**	1 863
Utilised during the year	**(2 013)**	(693)
Unused amounts reversed	**(1 690)**	–
Balance at end of year	**35 195**	30 719
Bonus and incentive scheme		
Balance at beginning of year	**–**	10 162
Arising during the year	**33 557**	–
Utilised during the year	**–**	(10 162)
Unused amounts reversed	**–**	–
Balance at end of year	**33 557**	–

Notes to the group annual financial statements continued

for the year ended 30 September

22. PROVISIONS continued

Leave pay provision

In terms of the group policy, employees are entitled to accumulated leave benefits not taken within a leave cycle, up to a maximum of three times the employee's annual leave allocation. The obligation is reviewed annually. The timing of the cash flow is uncertain.

Incentive provision

The majority of the employees in service of the group participate in a performance-based incentive scheme and the provision is made for the estimated liability in terms of set performance criteria. These incentives are paid in December of each year.

	2009 R'000	*Pro forma* 2008 R'000	Statutory 2008 R'000
23. NOTES TO THE CASH FLOW STATEMENT			
23.1 Operating profit before working capital changes			
Profit before taxation and abnormal items	**1 036 717**	978 666	447 734
Adjusted for:			
– accrued interest on pension fund receivable	**–**	(4 055)	(1 873)
– amortisation of intangibles	**9 589**	13 624	7 041
– depreciation	**73 181**	54 984	29 744
– (profit)/loss on disposal of property, plant and equipment	**(3 050)**	(2 040)	1 428
– dividend income	**(9 619)**	(10 700)	(2 809)
– net finance costs paid	**17 731**	36 667	56 624
– equity share-based expenses	**13 098**	12 664	7 741
– increase/(decrease) in provisions	**38 633**	(8 124)	31 110
	1 176 280	1 071 686	576 740
23.2 Working capital changes			
Increase in inventories	**(6 421)**	(132 748)	(142 763)
Increase in trade and other receivables	**(111 870)**	(235 565)	(176 599)
Increase in trade and other payables	**72 171**	91 611	64 001
	(46 120)	(276 702)	(255 361)
23.3 Dividends paid			
Dividends paid to equity holders of the parent	**(120 571)**	(37 900)	(10 300)
Dividends paid to minorities	**(5 155)**	(4 825)	(716)
	(125 726)	(42 725)	(11 016)
23.4 Taxation paid			
Amounts unpaid at beginning of year	**(20 366)**	(9 773)	–
Amounts charged to income statement	**(246 835)**	(243 996)	(105 209)
Movement in deferred tax	**(1 876)**	(309)	(5 906)
Adjustment in respect of businesses acquired	**(3 284)**	–	41 579
Amount unpaid at end of year	**29 726**	20 366	20 366
	(242 635)	(233 712)	(49 170)

Notes to the group annual financial statements continued

for the year ended 30 September

23. NOTES TO THE CASH FLOW STATEMENT continued

23.5 Business combinations

23.5.1 Tender Loving Care (Pty) Limited (TLC)

On 2 April 2009, Adcock Ingram Holdings Limited acquired 100% of the shareholding in Tender Loving Care – Hygienic, Cosmetic and Baby Products (Pty) Limited, an unlisted company in South Africa.

The fair value of the identifiable assets as at the date of acquisition was:

	2009 R'000
Property, plant and equipment	817
Other intangibles	65 248
Cash and cash equivalents	1 346
Inventories	11 707
Accounts receivable	12 746
Short-term borrowings	(16 151)
Accounts payable	(7 335)
Deferred tax	(21)
Receiver of Revenue	(3 284)
Long-term liabilities	(73)
Fair value of net assets	**65 000**
Cash and cash equivalents	(1 346)
Goodwill	15 395
Net cash purchase price	**(79 049)**

Of the total purchase price, a payment of R30 million has been deferred. The deferred portion of the purchase price, which has been fully provided for, is subject to the achievement of certain performance conditions.

The total cost of the acquisition was funded out of internal cash resources.

From the date of acquisition, TLC contributed R26,9 million towards revenue and R4,9 million towards profit before income tax.

Should the TLC acquisition have been included from 1 October 2008, the contribution is estimated to have been R46,0 million to revenue and R8,3 million to profit before income tax.

The significant factors that contributed to the recognition of goodwill include, but are not limited to the acquisition of trade listings of an established product portfolio within the FMCG channel.

23.5.2 Batswadi Biotech (Pty) Limited (Associate)

On 1 April 2009, Adcock Ingram Limited acquired 45% of Batswadi Biotech (Pty) Limited, an unlisted company in South Africa.

	2009 R'000
Net cash purchase price	**12 200**
Goodwill	**(12 200)**

Of the total purchase price, a payment of R10,2 million has been deferred. The deferred portion of the purchase price, which has been fully provided for, is subject to the achievement of certain performance conditions which were met by end October 2009.

The significant factors that contributed to the recognition of goodwill include, but are not limited to, access to a pipeline from a biotech company.

Notes to the group annual financial statements continued

for the year ended 30 September

23. NOTES TO THE CASH FLOW STATEMENT continued

23.5 Business combinations continued

23.5.3 Acquisition of Adcock Group

On 31 March 2008, Adcock Ingram Holdings Limited acquired 100% of:

- Adcock Ingram Healthcare (Pty) Limited
- Adcock Ingram Critical Care (Pty) Limited
- Adcock Ingram Intellectual Property (Pty) Limited.

On 1 April 2008, Adcock Ingram Holdings Limited acquired:

- 100% of Adcock Ingram Limited
- 49,9% of Adcock Ingram Limited India.

On 1 July 2008, Adcock Ingram Holdings Limited acquired 50% of Thembalami Pharmaceuticals (Pty) Limited, a dormant company.

The net book value of the identifiable assets as at the date of acquisition were:

	Statutory 2008 R'000
Property, plant and equipment	330 009
Goodwill and other intangibles	228 668
Investments	207 467
Inventories	423 817
Accounts receivable	706 290
Company taxation	41 579
Cash and cash equivalents	282 304
Deferred tax	1 965
Bank overdraft	(383 484)
Short-term borrowings	(84 196)
Accounts payable	(479 400)
Provision for post-retirement medical aid	(13 307)
Long-term liabilities	(410 196)
Fair value of assets	851 516
Minority interest	(21 900)
Add back bank overdraft	101 180
Net purchase price	930 796
Intercompany loans with Tiger Brands	(829 616)
Net cash outflow	101 180

Notes to the group annual financial statements continued

for the year ended 30 September

	2009 R'000	*Pro forma* 2008 R'000	Statutory 2008 R'000
23. NOTES TO THE CASH FLOW STATEMENT continued			
23.5 Business combinations continued			
23.5.4 Acquisition of Adcock Ingram Limited India (Joint Venture)			
On 1 November 2007, Adcock Ingram Holdings Limited acquired 49,9% of Adcock Ingram Limited India, a manufacturing facility in Bangalore, India.			
The fair value of the identifiable assets and liabilities as at date of acquisition were:			
Property, plant and equipment		31 930	
Fair value of net assets		31 930	
Net cash purchase price		31 930	
23.6 Cash related abnormal items			
Competition Commission settlement	**–**	(53 504)	–
	–	(53 504)	–

	2009 R'000	Statutory/ *Pro forma* 2008 R'000
24. INTEREST IN JOINT VENTURES		
There are no contingent liabilities or other commitments relating to the joint ventures.		
24.1 Adcock Ingram Limited India		
Adcock Ingram Holdings Limited has a 49,9% interest in Adcock Ingram Limited India, a jointly controlled entity whose primary business is the manufacturing of pharmaceutical products.		
The share of the assets, liabilities, income and expenses of the jointly controlled entity at 30 September 2009 and for the year then ended, which are included in the consolidated financial statements, are as follows:		
Non-current assets	**69 801**	67 868
Current assets	**48 739**	41 773
Total assets	**118 540**	109 641
Non-current liabilities	**(27 368)**	(31 259)
Current liabilities	**(52 825)**	(39 891)
Total liabilities	**(80 193)**	(71 150)

Notes to the group annual financial statements continued

for the year ended 30 September

	2009 R'000	*Pro forma* 2008 R'000	Statutory 2008 R'000
24. INTEREST IN JOINT VENTURES continued			
24.1 Adcock Ingram Limited India continued			
Revenue	**88 740**	42 688	27 739
Turnover	**88 344**	42 631	27 689
Cost of sales	**(60 394)**	(26 391)	(15 166)
Gross profit	**27 950**	16 240	12 523
Selling and distribution expenses	**(1 599)**	–	(210)
Administrative expenses	**(12 668)**	(5 414)	(4 882)
Operating profit	**13 683**	10 826	7 431
Finance income	**396**	57	50
Finance costs	**(5 109)**	(2 073)	(1 482)
Profit before taxation	**8 970**	8 810	5 999
Taxation	**(3 075)**	(3 294)	(2 046)
Net profit for the year	**5 895**	5 516	3 953

	2009 R'000	Statutory/ *Pro forma* 2008 R'000
24.2 National Renal Care (Pty) Limited		
Adcock Ingram Critical Care (Pty) Limited has a 100% interest in Dilwed Investments (Pty) Limited, which in turn has a 50% interest in National Renal Care (Pty) Limited, a jointly controlled entity which supplies renal healthcare services.		
The share of the assets, liabilities, income and expenses of the jointly controlled entity at 30 September 2009 and for the year then ended, which are included in the consolidated financial statements, are as follows:		
Non-current assets	**22 675**	15 994
Current assets	**25 325**	19 300
Total assets	**48 000**	35 294
Non-current liabilities	**–**	–
Current liabilities	**(30 504)**	(25 267)
Total liabilities	**(30 504)**	(25 267)

Notes to the group annual financial statements continued

for the year ended 30 September

	2009 R'000	*Pro forma* 2008 R'000	Statutory 2008 R'000
24. INTEREST IN JOINT VENTURES continued			
24.2 National Renal Care (Pty) Limited continued			
Revenue	**172 589**	137 553	72 434
Turnover	**171 877**	137 553	72 434
Cost of sales	**(146 904)**	(117 268)	(62 243)
Gross profit	**24 973**	20 285	10 191
Administrative expenses	**(11 420)**	(8 278)	(4 349)
Operating profit	**13 553**	12 007	5 842
Finance income	**712**	926	528
Profit before taxation and abnormal items	**14 265**	12 933	6 370
Taxation	**(4 296)**	(3 621)	(1 784)
Net profit for the year	**9 969**	9 312	4 586

24.3 Thembalami Pharmaceuticals (Pty) Limited

Adcock Ingram Limited has a 50% interest in Thembalami Pharmaceuticals (Pty) Limited, a jointly controlled entity which is dormant. At 30 September 2009 the shareholders' deficit was R2 698 642, of which R1 349 321 relates to the group.

25. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The group's principal financial liabilities comprise bank overdrafts, trade payables and loans received. The main purpose of these financial liabilities is to raise finance for the group's operations. The group has various financial assets such as trade and other receivables, and cash which arise directly from its operations. The group also enters into derivative transactions via forward currency contracts. The purpose is to manage the currency risks arising from the group's operations.

It is, and has been throughout 2009, the group's policy that no trading in derivatives shall be undertaken.

The main risks arising from the group's financial instruments are interest rate, liquidity, foreign currency and credit. The board of directors reviews and agrees policies for managing each of these risks which are summarised below.

Interest rate risk

The group's exposure to risk of changes in market interest rates relates primarily to the group's long-term and short-term debt obligations with floating interest rates linked to the South African prime and Indian bank lending rates. The group's policy is to manage its interest cost by measuring the risk with a sensitivity of 100 basis points of the lending rates on the outstanding capital amounts.

Interest rate risk table

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the group's profit after tax. There is no impact on the group's equity.

Notes to the group annual financial statements continued

for the year ended 30 September

25. FINANCIAL INSTRUMENTS continued

Interest rate risk table continued

	Change in rate %	(Decrease)/ increase in profit before tax 2009 R'000	 2008 R'000
Liabilities			
Indian rupee loan	**+1**	**(412)**	(304)
Cash balances			
Cash and cash equivalents	+1	**6 929**	4 060
Bank overdraft	+1	**(2)**	107

No sensitivity analysis has been done on the South African loan as it is set at a fixed borrowing rate.

Credit risk

Financial assets of the group which are subject to credit risk consist mainly of cash resources and trade receivables. Cash resources are placed with various approved financial institutions subject to approved limits. All these institutions are credit worthy.

The group trades only with recognised, credit worthy third parties. It is the group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the group's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in note 14. For transactions that do not occur in the country of the relevant operating unit, the group does not offer credit terms without the approval of the Corporate office. There are no significant concentrations of credit risk within the group arising from the financial assets of the group, which comprise cash and cash equivalents and trade receivables. The group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

Substantially all debtors are non-interest bearing and repayable within 30 – 90 days.

Debtors are disclosed net of a provision for doubtful debts.

Liquidity risk

The group monitors its risk to a shortage of funds using planning mechanisms. This considers the maturity of both its financial liabilities and financial assets and projected cash flows from operations. The group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and loans.

The maturity profile of the group's financial liabilities at 30 September 2009, based on contractual undiscounted payments, is shown in note 19.

Foreign currency risk

The group's current policy for the management of foreign exchange is to cover 100% of foreign currency commitments with forward exchange contracts when a firm commitment for the order of inventory is in place. As a result all foreign liabilities were covered by forward exchange contracts at year end.

As the group operates in various countries and undertakes transactions denominated in foreign currencies, exposures to foreign currency fluctuations arise. Exchange rate exposures on transactions are managed within approved policy parameters utilising forward exchange contracts or other derivative financial instruments in conjunction with external consultants who provide financial services to group companies as well as contributing to the management of the financial risks relating to the group's operations.

The forward currency contracts must be in the same currency as the hedged item. It is the group's policy to fix the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness. Forward exchange contracts are mainly entered into to cover import exposures. The fair value is determined using the applicable foreign exchange spot rates at reporting dates.

Notes to the group annual financial statements continued

for the year ended 30 September

25. FINANCIAL INSTRUMENTS continued

Foreign currency risk continued

The following spot rates were used:

	Assets R	Liabilities R	Average R
30 September 2009			
US dollar	**7,52**	**7,57**	**7,54**
Euro	**10,92**	**11,07**	**11,00**
30 September 2008			
US dollar	8,31	8,32	8,32
Euro	11,79	11,79	11,79

Cash flow hedges

At 30 September 2009, the group held no foreign exchange contracts designated as hedges of expected future sales to customers outside South Africa for which the group has firm commitments. The group had foreign exchange contracts outstanding at 30 September 2009 designated as hedges of expected future purchases from suppliers outside South Africa for which the group has firm commitments. All foreign exchange contracts will mature within 12 months.

A summary of the material contracts outstanding at year end is:

	Foreign currency '000	Average forward rate	Rands R'000
Foreign currency			
US dollar	18 252	8,06	147 166
Euro	8 680	11,47	99 571

The cash flow hedges of expected future purchases were assessed to be effective.

The maturity analysis for the outstanding contracts are as follows:

	US dollar '000	Rands '000	Euro '000	Rands '000
Within 30 days	6 355	50 240	4 378	50 050
31 – 60 days	2 487	19 975	2 207	25 197
61 – 90 days	3 002	23 881	967	11 378
> 90 days	6 408	53 070	1 128	12 946
	18 252	147 166	8 680	99 571

A summary of the material contracts bought during the year is:

	Foreign currency '000	Average forward rate	Rands R'000
Foreign currency			
US dollar	58 679	9,46	554 958
Euro	25 043	12,62	316 094

Notes to the group annual financial statements continued

for the year ended 30 September

25. FINANCIAL INSTRUMENTS continued

Foreign currency risk continued

The following table demonstrates the sensitivity to change in foreign currencies, with all other variables held constant, of the group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the group's equity (due to changes in the fair value of open forward exchange contracts).

	Change in rate %	Increase/ (decrease) in profit before tax R'000	Increase/ (decrease) in equity R'000
2009			
US dollar	+10	919	6 810
	-10	(919)	(20 726)
Euro	+10	2 180	6 467
	-10	(2 180)	(12 660)

No comparison is provided between fair values and the carrying amounts as they are equal.

Capital management

The primary objective of the group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios, in order to support its business and maximise shareholder value. The group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the group may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or repurchase shares.

The group monitors its capital using gearing and interest cover ratios. The primary methods of measurement used are interest bearing debt to total equity and annualised EBITDA, and interest cover. The group is currently well within acceptable industry norms on all of these measures as it has little gearing.

	2009 R'000	Statutory/ *Pro forma* 2008 R'000
Interest-bearing loans and borrowings	**311 481**	438 952
Less: Cash and short-term deposits	**(692 717)**	(395 298)
Net (cash)/debt	**(381 236)**	43 654
Equity	**2 325 596**	1 651 003
Gearing ratio (%)	**(16)**	3

26. RELATED PARTIES

Related party transactions exist between the group, fellow subsidiaries and the holding company. All purchasing and selling transactions with related parties are concluded at arm's length.

The following related party transactions occurred during the years ended 30 September:

	2009 R'000	*Pro forma* 2008 R'000	Statutory 2008 R'000
Tiger Consumer Brands Limited*			
Management fee	–	55 083	17 846
Sales	–	61 869	37 638
Salaries	–	186	–

**As Adcock was part of the Tiger Brands Group for 11 months of the previous year, Tiger Brands was regarded as a related party.*

Notes to the group annual financial statements continued

for the year ended 30 September

27. CONTINGENT LIABILITIES

The group provides surety for the, obligations of Adcock Ingram Healthcare (Pty) Limited and Adcock Ingram Critical Care (Pty) Limited.

	2009 R'000	Statutory/ *Pro forma* 2008 R'000

28. COMMITMENTS AND CONTINGENCIES

28.1 Operating lease commitments

The group has entered into the following lease agreements for premises used as offices and distribution centres for pharmaceutical products:

	Lease 1	Lease 2
Initial lease period	3 years	10 years
Ending	31 May 2012	30 June 2018
Renewal option period	2 years	10 years
Ending	31 May 2014	30 June 2028
Escalation %	9%	Only after year 8

	2009 R'000	Statutory/ *Pro forma* 2008 R'000
Future minimum rentals payable under non-cancellable operating leases as at 30 September are as follows:		
Within one year	**19 215**	22 788
After one year but not more than five years	**77 134**	56 049
More than five years	**39 702**	77 603
	136 051	156 440

28.2 Capital commitments

	2009 R'000	Statutory/ *Pro forma* 2008 R'000
Commitments contracted for	**143 693**	115 879
2010	**143 693**	115 879
Approved but not contracted for	**789 091**	498 825
2010	**410 871**	498 825
2011	**366 537**	–
2012	**11 683**	–
Thereafter	**–**	–
	932 784	614 704

These commitments relate to tangible assets.

28.3 Guarantees

The group has provided guarantees to the amount of R14,0 million as at 30 September 2009 (2008: none).

Notes to the group annual financial statements continued

for the year ended 30 September

29. SHARE-BASED PAYMENT PLANS

Certain employees were entitled to join the general employee share-option plan, based on merit, when the group was still part of the Tiger Brands group. Options were issued annually by the Tiger Brands Limited board of directors.

Options vest as follows:
- a third after three years;
- a third after four years; and
- a third after five years.

The exercise price was determined in accordance with the rules of the scheme.

From January 2006, the option plan rules changed from being an equity-settled scheme to a cash-settled scheme.

The expense recognised for employee services received during the year to 30 September 2009 is R32,7 million (2008: R21,0 million).

Equity-settled

The following table illustrates the number and weighted average offer prices (WAOP) of and movements in Adcock share options during the year.

	2009		Statutory 2008	
	Number	WAOP	Number	WAOP
Outstanding at the beginning of the year	**2 706 670**	**13,59**	3 895 755	13,67
Exercised subject to loans	**–**	**–**	(103 700)	12,71
Granted during the year	**–**	**–**	–	–
Exercised and paid in full[1]	**(570 410)**	**12,90**	(604 745)	12,28
Cancelled/lapsed	**(20 890)**	**19,81**	(480 640)	16,10
Outstanding at the end of the year	**2 115 370**	**13,70**	2 706 670	13,59
Exercisable at the end of the year	**1 943 070**	**13,10**	1 987 436	12,23

[1] *The weighted average share price at the date of exercise for the options exercised is R41,26 (2008: R32,00).*

Included within this balance are options over 480 032 shares (2008: 660 465 shares) that have not been recognised in accordance with IFRS 2 as the options were granted on or before 7 November 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS 2.

	2009	2008
The weighted average remaining contractual life for the share options outstanding at year end is:	**3,82 years**	4,71 years
The range of exercise prices for options outstanding at the end of the year was:	**R8,69 – R28,33**	R7,19 – R28,33

Notes to the group annual financial statements continued

for the year ended 30 September

29. SHARE-BASED PAYMENT PLANS continued

Equity-settled continued

Share options were valued based on the historical volatility of the share price of companies in the same sector over the expected lifetime of each option, as the company had a short trading history. The valuation is measured at fair value (excluding any non-market vesting conditions) and is the sum of the intrinsic value plus optionality. The fair value of each option is estimated using an explicit finite-difference option pricing model. All options are valued with a European expiry profile, i.e. with a single exercise date at maturity.

Loans to the amount of R1 022 616 relating to Adcock employees were outstanding at the end of the year (2008: R1 021 803).

Cash-settled

The following table illustrates the number and weighted average offer prices (WAOP) of and movements in Adcock share options during the year.

	2009		2008	
	Number	WAOP	Number	WAOP
Outstanding at the beginning of the year	**1 548 518**	**33,49**	1 238 656	33,39
Granted during the year	**2 262 651**	**34,11**	684 683	33,80
Forfeited during the year	**(102 085)**	**39,06**	–	–
Exercised during the year	**(6 035)**	**31,38**	(374 821)	33,69
Outstanding at the end of the year	**3 703 049**	**33,85**	1 548 518	33,49
Vested and exercisable at the end of the year	**153 740**	**31,38**	–	–

	2009	2008
The weighted average remaining contractual life for the share options outstanding at year end is:	**4,44 years**	4,42 years
The range of offer prices for options outstanding at the end of the year was:	**R28,27 – R36,26**	R28,27 – R36,26
The carrying amount of the liability relating to the cash-settled options at year end is:	**R26,75 million**	R7,18 million

Share options were valued based on the historical volatility of the share price of companies in the same sector over the expected lifetime of each option, as the company had a short trading history. The valuation is measured at fair value (excluding any non-market vesting conditions) and is the sum of the intrinsic value plus optionality. The fair value of each option is estimated using an explicit finite-difference option pricing model. All options are valued with a European expiry profile, i.e. with a single exercise date at maturity.

Notes to the group annual financial statements continued

for the year ended 30 September

29. SHARE-BASED PAYMENT PLANS continued

Black Managers share option scheme

In terms of the Tiger Brands Limited BEE transaction implemented on 17 October 2005, 4 381 831 Tiger Brands shares were acquired by the Tiger Brands Black Managers Trust. Allocation of vested rights to these shares were made to 435 black managers of the Tiger Brands Group (including the Adcock Ingram Group). The allocation of vested rights entitles beneficiaries to receive Tiger Brands shares (after making capital contributions to the Black Managers Trust) at any time after the defined lock-in period, i.e. from 1 January 2015. These vested rights are non-transferable.

From 1 January 2015, the beneficiaries may exercise their vested rights, in which event the beneficiary may:

- instruct the trustees to sell all of their shares and distribute the proceeds to them, net of the funds required to pay the capital contributions, taxation (including employees' tax), costs and expenses;
- instruct the trustees to sell sufficient shares to fund the capital contributions, pay the taxation (including employees' tax), costs and expenses and distribute to them the remaining shares to which they are entitled; or
- fund the capital contributions, taxation (including employees' tax), costs and expenses themselves and receive the shares to which they are entitled.

	2009	**2008**
The expense recognised for employee services received during the year is:	**R13,03 million**	R12,90 million
Number of participation rights allocated to Adcock Ingram employees at year end:	**1 153 200**	1 229 400
The weighted average remaining contractual life for the share options outstanding at year end is:	**5,25 years**	6,25 years

No weighted average exercise price has been calculated as there were no options exercised.

Participation rights were valued using the Monte-Carlo simulation approach to estimate the average, optimal pay-off of the participation rights using 5 000 permutations. The pay-off of each random path was based on:

- the projected Tiger Brands share price;
- outstanding debt projections; and
- optimal early exercise conditions.

Notes to the group annual financial statements continued

for the year ended 30 September

30. EVENTS AFTER THE BALANCE SHEET DATE

30.1 Unique Formulations

On 17 November 2009, the group acquired 100% of the assets as a going concern of Unique Formulations, a vitamins, minerals and supplement business based in Cape Town, for a cash consideration of R35 million. The consideration will be paid in three tranches over a two-year period. The acquisition of Unique Formulations is congruent with the group's expansion strategy into the complementary medicines market. The fair value of assets acquired and liabilities assumed have not been finalised.

30.2 Long-term loan finance facilities

The group signed a long-term loan facility to the value of R800 million to finance the group's capital expenditure in relation to an upgrade and refurbishment of a current manufacturing facility in the Hospital Products segment as well as the construction of a new high-volume liquids manufacturing plant in the Pharmaceutical division over the next four years.

30.3 Broad-based Black Economic Empowerment (BEE) transaction

In March 2009, Adcock announced its intention to facilitate the introduction of meaningful and sustainable black economic empowerment (BEE) equity participation in Adcock. Adcock has announced the key terms of its BEE equity ownership transaction to shareholders, which has been done through a SENS announcement. Adcock is committed to transformation through the introduction of broad-based BEE equity partners into the business to add to the significant progress it has made in the areas of, *inter alia*, employment equity, skills development, preferential procurement and enterprise development. For more details of Adcock's broad-based BEE transaction, please refer to the SENS announcement of 24 November 2009. Adcock Ingram remains committed to delivering value for its shareholders.

30.4 Ayrton

On 20 November 2009, Adcock Ingram delivered a letter to the board of directors of Ayrton Drug Manufacturing Limited (Ayrton) in terms of which Adcock Ingram specified its firm intention to make an offer to acquire the entire issued ordinary share capital of Ayrton, subject to obtaining a minimum of 51% of the company. The offer price of GH cents 0,16 per share values Ayrton at the equivalent of R178 million.

Company income statements

for the year ended 30 September

	Note	2009 R'000	2008 R'000
Revenue	A	**179 640**	49 612
Operating loss		**(13)**	(9)
Finance income	B.1	**56 719**	701
Finance costs	B.2	**(40 554)**	(5)
Dividend income	A	**122 921**	48 911
Profit before taxation	C	**139 073**	49 598
Taxation	D	**(8 638)**	(192)
Net profit for the year		**130 435**	49 406
Exchange differences on translation of foreign operations		**–**	286
Total comprehensive income for the year, net of tax		**130 435**	49 692

NOTES TO THE COMPANY INCOME STATEMENT

A. REVENUE

	2009 R'000	2008 R'000
Finance income	**56 719**	701
Dividend income from unlisted subsidiaries	**122 921**	48 911
	179 640	49 612

B. FINANCE INCOME AND FINANCE COSTS

B.1 Finance income

	2009 R'000	2008 R'000
Interest received	**53 254**	–
Interest from group company	**3 465**	701
	56 719	701

B.2 Finance costs

	2009 R'000	2008 R'000
Bank	**(40 554)**	(5)
	(40 554)	(5)

C. PROFIT BEFORE TAXATION

C.1 Profit before taxation has been arrived at after the following:

	2009 R'000	2008 R'000
Foreign exchange profit	**72**	–

D. TAXATION

	2009 R'000	2008 R'000
South African normal taxation		
– current year	**(4 523)**	(192)
Secondary Tax on Companies	**(4 115)**	–
Total tax charge	**(8 638)**	(192)
Reconciliation of the taxation rate:		
Effective rate (%)	**6,2**	0,4
Adjusted for:		
Exempt income (%)	**24,8**	27,6
Secondary Tax on Companies (%)	**(3,0)**	–
South African normal tax rate (%)	**28,0**	28,0

Company balance sheets

at 30 September

	Note	2009 R'000	2008 R'000
ASSETS			
Investment in subsidiary companies	F	**3 478 736**	3 398 341
Non-current assets		**3 478 736**	3 398 341
Other receivables	G	**1 868**	420
Cash and cash equivalents	H	**594 319**	–
Taxation receivable		**2 766**	–
Amounts owing by group companies	I	**55 588**	40 932
Current assets		**654 541**	41 352
Total assets		**4 133 277**	3 439 693
EQUITY AND LIABILITIES			
Capital and reserves			
Issued share capital	K	**17 363**	17 306
Share premium	L	**1 203 854**	1 195 537
Non-distributable reserves	M	**286**	286
Retained income		**79 537**	70 561
Total equity		**1 301 040**	1 283 690
Bank overdraft	H	**641 277**	13
Other payables	N	**35 043**	–
Taxation payable		**–**	73
Amounts owing to group companies	J	**2 155 917**	2 155 917
Current liabilities		**2 832 237**	2 156 003
Total equity and liabilities		**4 133 277**	3 439 693

Company cash flow statements

for the year ended 30 September

	Note	2009 R'000	2008 R'000
Cash flows from operating activities			
Operating profit before working capital changes	O.1	**(13)**	(9)
Working capital changes	O.2	**33 595**	(419)
Cash generated from operations		**33 582**	(428)
Finance income	B.1	**56 719**	701
Finance costs	B.2	**(40 554)**	(5)
Dividend income	A	**122 921**	48 911
Dividends paid	O.3	**(121 459)**	(10 300)
Taxation paid	O.4	**(11 477)**	(119)
Net cash inflow from operating activities		**39 732**	38 760
Cash flows from investing activities			
Cost of subsidiaries acquired	O.5	**(80 395)**	(3 366 886)
Net cash outflow from investing activities		**(80 395)**	(3 366 886)
Cash flows from financing activities			
Proceeds from issue of share capital		**8 374**	1 212 842
(Increase)/decrease in amounts owing to group companies		**–**	2 155 917
Increase in amounts owing by group companies		**(14 656)**	(40 932)
Net cash (outflow)/inflow from financing activities		**(6 282)**	3 327 827
Net decrease in cash and cash equivalents		**(46 945)**	(299)
Translations reserve movement		**–**	286
Cash and cash equivalents at beginning of year		**(13)**	–
Cash and cash equivalents at end of year	H	**(46 958)**	(13)

Company statement of changes in equity

for the year ended 30 September

	Note	Share capital R'000	Share premium R'000	Retained income R'000	Non-distributable reserves R'000	Total R'000
2008						
As at 1 October 2007		1				1
Share issue		17 305	1 195 552			1 212 857
Capital distribution out of share premium	L		(15)			(15)
Total comprehensive income				49 406	286	49 692
Transfer of reserves on acquisition of The Scientific Group Limited from Adcock Ingram Critical Care (Pty) Limited				31 455		31 455
Dividends	E			(10 300)		(10 300)
Balance at 30 September 2008		17 306	1 195 537	70 561	286	1 283 690
2009						
Share issue		57	8 317			8 374
Total comprehensive income				130 435		130 435
Dividends	E			(121 459)		(121 459)
Balance at 30 September 2009		**17 363**	**1 203 854**	**79 537**	**286**	**1 301 040**

Notes to the company annual financial statements

for the year ended 30 September

	2009 R'000	2008 R'000
E. DIVIDENDS PAID AND PROPOSED		
Declared and paid during the year		
Dividends on ordinary shares		
Interim dividend for 2009: 70 cents per share	**121 459**	
Proposed for approval at AGM (not recognised as a liability as at 30 September):		
Dividends on ordinary shares		
Final dividend for 2009: 80 cents per share	**138 900**	
In terms of current legislation this would result in a STC liability of R13,9 million.		
The following dividends were paid during the previous year before the company became a listed entity:		
To Tiger Brands Limited – declared 30 May 2008		10 300

		Effective holding			
		2009 %	2008 %	2009 R'000	2008 R'000
F. INVESTMENTS IN SUBSIDIARIES AND JOINT VENTURES					
The following investments were acquired during 2008					
Subsidiaries	**Date**				
Adcock Ingram Limited	1 April 2008	**100**	100	**2 130 587**	2 130 587
Adcock Ingram Healthcare (Pty) Limited	31 March 2008	**100**	100	**815 390**	815 390
Adcock Ingram Critical Care (Pty) Limited	31 March 2008	**100**	100	**284 979**	284 979
Adcock Ingram Intellectual Property (Pty) Limited	31 March 2008	**100**	100	**104 000**	104 000
The Scientific Group (Pty) Limited	7 April 2008	**74**	74	**31 455**	31 455
Tender Loving Care (Pty) Limited	2 April 2009	**100**	–	**80 395**	–
Joint ventures					
Thembalami Pharmaceuticals (Pty) Limited	1 July 2008	**50**	50	**–**	–
Adcock Ingram Limited India	1 April 2008	**49,9**	49,9	**31 930**	31 930
				3 478 736	3 398 341

Notes to the company annual financial statements continued

for the year ended 30 September

		2009 R'000	2008 R'000
G.	**OTHER RECEIVABLES**		
	Bank interest receivable	**1 868**	–
	Dividend receivable from Adcock Ingram Limited India	**–**	420
		1 868	420
	The fair value of other receivables approximates their carrying value. All receivables are current and none are past due and not impaired.		
H.	**BANK OVERDRAFT**		
	Cash at banks and on hand	**594 319**	–
	Bank overdraft	**(641 277)**	(13)
		(46 958)	(13)
	Cash at bank and bank overdraft earn and incur interest at floating daily bank rates. The fair value approximates the carrying value.		
I.	**AMOUNTS OWING BY GROUP COMPANIES**		
	Adcock Ingram Healthcare (Pty) Limited	**481**	1 421
	Adcock Ingram Holdings Employee Trust	**3**	334
	Tender Loving Care (Pty) Limited	**16 126**	–
	The Scientific Group (Pty) Limited	**13 313**	13 313
	Adcock Ingram Limited India	**286**	286
	These loans are unsecured, interest free and have no fixed terms of repayment.		
	The Scientific Group (Pty) Limited	**25 379**	25 578
	This loan is unsecured, bearing interest at prime less 2%. The loan has no fixed terms of repayment.		
		55 588	40 932
J.	**AMOUNTS OWING TO GROUP COMPANIES**		
	Adcock Ingram Limited	**2 155 917**	2 155 917
	This loan is unsecured,interest-free and has no fixed terms of repayment.		
	The fair value of amounts owing to group companies approximates the carrying value.		

Notes to the company annual financial statements

for the year ended 30 September

			2009	2008
			R'000	R'000
K.	**SHARE CAPITAL**			
	Authorised			
	250 000 000 shares of R0,10 each		**25 000**	25 000
	Issued			
	173 625 578 (2008: 173 055 168) shares of R0,10 each		**17 363**	17 306
	Balance at beginning of year	173 055 168		
	Issued shares increased as follows:			
	12 June	307 310		
	29 June	150 500		
	08 July	1 333		
	13 July	11 400		
	15 July	41 400		
	16 July	28 067		
	29 July	3 000		
	30 July	700		
	19 August	3 400		
	31 August	3 300		
	30 September	20 000		
	Balance at the end of the year	173 625 578		
	The issued share capital increased as a result of share options exercised.			
L.	**SHARE PREMIUM**			
	Balance at beginning of year		**1 195 537**	–
	Issues of shares		**8 317**	1 195 552
	Capital distribution out of share premium		**–**	(15)
			1 203 854	1 195 537
M.	**NON-DISTRIBUTABLE RESERVES**			
	Foreign currency translation reserve		**286**	286
	Foreign currency translation reserve			
	The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.			
N.	**OTHER PAYABLES**			
	Interest accrued		**4 947**	–
	Final payable for TLC acquisition		**30 000**	–
	Other		**96**	–
			35 043	–

Terms, conditions and cash flows of the above financial liabilities:

- Interest accrued is payable within 30 days
- R25 million of the payment for the TLC acquisition is due on 28 February 2010, with the balance as soon as their financial results for the year then ending have been finalised.
- Other payables are non-interest bearing and have an average term of six months

The fair value approximates the carrying value.

Notes to the company annual financial statements continued

for the year ended 30 September

		2009 R'000	2008 R'000
NOTES TO THE CASH FLOW STATEMENT			
O.1	**Operating profit before working capital changes**		
	Profit before taxation	**139 073**	49 598
	Adjusted for:		
	– dividend income	**(122 921)**	(48 911)
	– net finance income earned	**(16 165)**	(696)
		(13)	(9)
O.2	**Working capital changes**		
	Increase in trade and other receivables	**(1 448)**	(419)
	Increase in payables	**35 043**	–
		33 595	(419)
O.3	**Dividends paid**		
	Per statement of changes in equity	**(121 459)**	(10 300)
		(121 459)	(10 300)
O.4	**Taxation paid**		
	Amounts unpaid at beginning of year	**(73)**	–
	Amounts charged to income statement	**(8 638)**	(192)
	Amount (overpaid)/unpaid at end of year	**(2 766)**	73
		(11 477)	(119)
O.5	**Acquisition of subsidiaries and joint ventures**		
	O.5.1 Tender Loving Care (Pty) Limited On 2 April 2009, Adcock Ingram Holdings Limited acquired 100% of the shareholding in Tender Loving Care – Hygienic, Cosmetic and Baby Products (Pty) Limited, an unlisted company in South Africa.		
	Net cash purchase price	**(80 395)**	
	Cost of subsidiary acquired	**(80 395)**	
	O.5.2 Adcock Ingram Group On 31 March 2008, Adcock Ingram Holdings Limited acquired 100% of: • Adcock Ingram Healthcare (Pty) Limited • Adcock Ingram Critical Care (Pty) Limited • Adcock Ingram Intellectual Property (Pty) Limited On 1 April 2008, Adcock Ingram Holdings Limited acquired: • 100% of Adcock Ingram Limited • 49,9% of Adcock Ingram Limited India On 1 July 2008, Adcock Ingram Holdings Limited, acquired 50% of Thembalami Pharmaceuticals (Pty) Limited, a dormant company		
	Net purchase price		(3 366 886)

Notes to the company annual financial statements

for the year ended 30 September

P. RELATED PARTIES

Related party transactions exist between the company and fellow subsidiaries. Amounts due to and receivable from related parties are set out in notes J and K. For the year ended 30 September 2009, the company has not made any provision for doubtful debts relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

The following parties with whom the company traded during the year have been identified as related parties:

- Adcock Ingram Limited
- Adcock Ingram Healthcare (Pty) Limited
- Adcock Ingram Intellectual Property (Pty) Limited
- Adcock Ingram Critical Care (Pty) Limited
- The Scientific Group (Pty) Limited
- Adcock Ingram Limited India

Transaction type	Related parties	Relationship	2009 R'000	2008 R'000
Dividends received	Adcock Ingram Limited India	Joint venture	**608**	420
Dividends received	Adcock Ingram Limited	Subsidiary	**10 313**	–
Dividends received	Adcock Ingram Healthcare (Pty) Limited	Subsidiary	**–**	10 300
Dividends received	Adcock Ingram Intellectual Property (Pty) Limited	Subsidiary	**42 000**	–
Dividends received	Adcock Ingram Critical Care (Pty) Limited	Subsidiary	**70 000**	38 191
Interest received	The Scientific Group (Pty) Limited	Subsidiary	**3 465**	701

Q. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The company's principal financial liabilities comprise bank overdrafts, other payables and amounts owing to group companies. The main purpose of these financial liabilities is to raise finance for the group's operations. The company's financial assets consist of cash and amounts owing by group companies.

The main risks arising from the company's financial instruments are interest rate, liquidity and credit. The board of directors reviews and agrees policies for managing each of these risks which are summarised below.

Interest rate risk

The company's exposure to risk of changes in market interest rates relates primarily to the company's banking facilities with floating interest rates linked to the South African prime rate. The company's policy is to manage its interest cost by measuring the risk with a sensitivity of 100 basis points of the lending rates on the outstanding capital amounts.

Interest rate risk table

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the company's profit after tax. There is no impact on the company's equity.

Notes to the company annual financial statements

for the year ended 30 September

Q. FINANCIAL INSTRUMENTS continued

Interest rate risk table continued

	Change in rate %	(Decrease)/ increase in profit before tax 2009 R'000	 2008 R'000
Cash balances			
Cash and cash equivalents	+1	**5 943**	–
Bank overdraft	+1	**(6 413)**	–

Credit risk

Financial assets of the company which are subject to credit risk consist of cash balances. Cash is placed with various approved financial institutions subject to approved limits. All these institutions are credit worthy.

Liquidity risk

The company monitors its risk to a shortage of funds using planning mechanisms. This considers the maturity of both its financial liabilities and financial assets and projected cash flows from operations. The company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and intercompany loans.

Capital management

The primary objective of the company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios, in order to support its business and maximise shareholder value. The company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the company may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or repurchase shares.

Annexure A

interest in subsidiary companies, joint ventures and associates

	Shareholding 2009 %	Shareholding 2008 %
SUBSIDIARIES		
Adcock Ingram Limited	**100**	100
Adcock Ingram Healthcare (Pty) Limited	**100**	100
Adcock Ingram Intellectual Property (Pty) Limited	**100**	100
The Scientific Group (Pty) Limited	**74**	74
Adcock Ingram Critical Care (Pty) Limited	**100**	100
Tender Loving Care (Pty) Limited	**100**	N/A
Adcock Ingram International (Pty) Limited	**100**	N/A
JOINT VENTURES		
Thembalami Pharmaceuticals (Pty) Limited	**50**	50
Adcock Ingram Limited India	**49,9**	49,9
INDIRECT HOLDINGS		
Adcock Ingram Pharmaceuticals (Pty) Limited	**100**	100
Premier Pharmaceutical Company (Pty) Limited	**100**	100
Metamorphosa (Pty) Limited	**50**	50
Menarini SA (Pty) Limited	**49**	49
Novartis Ophthalmics (Pty) Limited	**49**	49
Batswadi Biotech (Pty) Limited	**45**	N/A
Addclin Research (Pty) Limited	**51**	51
Adcock Ingram Intellectual Property No 1 (Pty) Limited	**100**	100
Scientific Group Finance (Pty) Limited	**100**	100
South African Scientific Pharmaceuticals (Pty) Limited	**100**	100
H Investments No 161 (Pty) Limited	**40**	40
Scientific Group Holdings (Pty) Limited	**100**	100
Scientific Group Investments (Pty) Limited	**100**	100
Dilwed Investments (Pty) Limited	**100**	100
Adcock Ingram Namibia (Pty) Limited	**100**	100
National Renal Care (Pty) Limited	**50**	50
Adcock Ingram East Africa Limited	**100**	N/A
TRUST		
Adcock Ingram Holdings Employees Trust		

Annexure B – Extract of Adcock Ingram annual report 2008

Independent auditor's report

to the members of Adcock Ingram Holdings Limited

REPORT ON THE *PRO FORMA* FINANCIAL INFORMATION

We have performed our audit on the *pro forma* information of Adcock Ingram Holdings Limited and its subsidiaries (the group), which comprise the *pro forma* balance sheet as at 30 September 2008, the *pro forma* income statement and the *pro forma* cash flow statement for the year ended 30 September 2008, a summary of significant accounting policies and other explanatory notes, as set out on pages 53 to 122. This *pro forma* information has been prepared by the directors using the bases of preparation set out on page 59.

Management's responsibility for the financial statements

The company's directors are responsible for the preparation and presentation of the *pro forma* information in accordance with the bases of preparation. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the *pro forma* information based on our audit. We conducted our engagement in accordance with International Standards on Assurance Engagements. Those standards require that we comply with ethical requirements and plan and perform the engagement to obtain assurance that the *pro forma* information is free from material misstatement.

This audit involved performing procedures to obtain evidence about the amounts and disclosures in the *pro forma* information. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the *pro forma* information, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and presentation of the *pro forma* information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. It also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the *pro forma* information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the *pro forma* financial information of the group has been prepared, in all material respects, in accordance with the bases of preparation described on page 59 of these statements.

Ernst & Young Inc.

Ernst & Young Inc.
Registered auditor

1 December 2008
Johannesburg

Shareholder analysis

SHAREHOLDER SPREAD	Number of shareholders	%	Number of shares	%
1 – 1 000 shares	9 214	73,97	3 198 285	1,84
1 001 – 10 000 shares	2 595	20,84	7 775 347	4,48
10 001 – 100 000 shares	470	3,77	14 836 208	8,54
100 001 – 1 000 000 shares	147	1,18	46 844 046	26,98
1 000 000 shares and over	30	0,24	100 971 692	58,16
	12 456	100,00	173 625 578	100,00
DISTRIBUTION OF SHAREHOLDERS				
Banks	112	0,90	29 872 235	17,21
Brokers	20	0,16	758 894	0,44
Close corporations	116	0,93	131 390	0,08
Collateral account	4	0,03	916 223	0,53
Empowerment	2	0,02	5 896 140	3,40
Endowment funds	90	0,72	561 152	0,32
Hedge fund	1	0,01	9 955	0,01
Individuals	8 531	68,49	7 597 267	4,37
Insurance companies	52	0,42	17 774 616	10,24
Investment companies	26	0,21	1 818 769	1,05
Medical aid schemes	16	0,13	260 366	0,15
Mutual funds	212	1,70	43 423 603	25,01
Nominees and trusts	2 576	20,68	6 102 025	3,51
Other corporations	135	1,08	440 709	0,25
Pension funds	254	2,04	43 568 453	25,10
Private companies	284	2,28	2 098 749	1,21
Public companies	19	0,15	10 604 042	6,11
Script account	1	0,01	192 000	0,11
Securities lending	2	0,02	523 261	0,30
Share trusts	3	0,02	1 075 729	0,62
	12 456	100,00	173 625 578	100,00
PUBLIC/NON-PUBLIC SHAREHOLDERS				
Non-public shareholders	3	0,02	100 100	0,05
Directors’ holdings	2	0,02	39 400	0,02
Share trust	1	0,00	60 700	0,03
Public Shareholders	12 453	99,98	173 525 478	99,95
	12 456	100,00	173 625 578	100,00

Shareholder analysis continued

	Number of shares	%
BENEFICIAL SHAREHOLDERS HOLDING 3% OR MORE		
Government Employee Pension Fund	22 057 386	12,71
Tiger Brands Limited *	10 326 758	5,95
FOREIGN CUSTODIANS HOLDING 3% OR MORE		
State Street Bank & Trust Co (Custodian)	15 384 895	8,86
BENEFICIAL BREAKDOWNS		
Government Employees Pension Fund	22 057 386	12,71

BREAKDOWN OF NON-PUBLIC HOLDINGS		
DIRECTORS' HOLDINGS		
Louw, JJ	39 300	0,02
Hall, AG	100	0,00
Total	39 400	0,02
SHARE TRUST		
The Adcock Ingram Holdings Limited Employee Share Trust	60 700	0,03

**This report is based on information as at 25 September 2009. Tiger Brands Limited has subsequently sold their shares in Adcock Ingram.*

Notice of Annual General Meeting

ADCOCK INGRAM HOLDINGS LIMITED
(Incorporated in the Republic of South Africa)
Registration number 2007/106236/06
ISIN: ZAE000123436 JSE Share Code: AIP

Notice is hereby given that the second annual general meeting of members of Adcock Ingram Holdings Limited ("the Company"), will be held at the Company's premises, 1 New Road, Midrand, Gauteng on Wednesday, 3 February 2010 at 14h00 to conduct the following business:

ORDINARY RESOLUTION 1

To receive, consider and adopt the audited annual financial statements of the Company, incorporating the reports of the auditors, the audit committee and the directors for the year ended 30 September 2009.

ORDINARY RESOLUTION 2

To elect by way of separate resolutions directors in the place of those retiring in accordance with the Company's articles of association. The directors retiring are listed below, all of whom, being eligible offer themselves for re-election.

2.1 EK Diack;
2.2 T Lesoli; and
2.3 KDK Mokhele.

An abbreviated *curriculum vitae* in respect of each director offering himself for re-election is contained on pages 6 to 7 of the annual report.

ORDINARY RESOLUTION 3

To re-appoint Ernst & Young as independent auditors of the Company for the ensuing year (the designated auditor being Ms J Oliva) and to authorise the directors to determine the remuneration of the auditors for the past year's audit as reflected in note 3 to the annual financial statements.

ORDINARY RESOLUTION 4

To approve that, subject to the provisions of the section 221 and 222 of the Companies Act 61 of 1973, as amended, and the JSE Limited Listings Requirements, the directors are hereby authorised to allot and issue at their discretion up to a maximum of 5% (five percent) of the total number of issued ordinary shares in the share capital of the Company for such purposes as they may determine.

ORDINARY RESOLUTION 5

To approve that, as required in terms of the JSE Limited ("JSE") Listings Requirements, the directors be authorised to undertake a general issue **up to a maximum of 5% (five percent)** of the total number of issued ordinary shares in the share capital of the Company for cash, without restrictions as to any public shareholder, as defined by the JSE Listings Requirements, as and when suitable opportunities arise, subject to the following conditions:

1. that this authority shall only be valid until the next annual general meeting of the Company but shall not extend beyond 15 (fifteen) months from the date of this meeting;

2. that a paid press announcement giving full details, including the impact on net asset value and earnings per share, be published after any issue representing, on a cumulative basis within one financial year, 5% (five percent) of the number of shares in issue prior to the issue concerned;

3. that the issues in aggregate in any one financial year shall not exceed 5% (five percent) of the number of shares of the Company's issued ordinary share capital; and

4. that in determining the price at which an issue of shares for cash will be made in terms of this authority, the maximum discount permitted shall be 10% of the weighted average traded price of the ordinary shares on the JSE, (adjusted for any dividend declared but not yet paid or for any capitalisation award made to shareholders) over the 30 (thirty) business days prior to the date that the price of the issue is determined or agreed by the directors of the Company.

Notice of Annual General Meeting continued

In terms of paragraph 5.52(e) of the JSE Listings Requirements, Ordinary Resolution 5 requires the approval of 75% (seventy-five percent) majority of the votes cast in favour of such resolution by all equity securities holders presented or represented by proxy at the annual general meeting convened to approve such resolution, excluding shares held in any employee share trust.

SPECIAL BUSINESS

SPECIAL RESOLUTION 1

To sanction the proposed remuneration payable to non-executive directors retrospectively from the commencement of the financial year, being 1 October 2009 until the next annual general meeting, as set out in the table contained in the explanatory notes to this notice.

SPECIAL RESOLUTION 2

To consider and, if deemed fit, to pass, with or without modification, the following special resolution:

"RESOLVED that the directors be and are hereby authorised to approve and implement the acquisition by the Company (or by a subsidiary of the Company up to a maximum of 10% (ten percent) of the number of issued ordinary shares of the Company), of ordinary shares issued by the Company by way of a general authority, which shall only be valid until the Company's next annual general meeting, unless it is then renewed, provided that it shall not extend beyond 15 (fifteen) months from the date of the passing of the special resolution, whichever period is the shorter, in terms of the Companies Act, 61 of 1973, as amended, and the JSE Limited ("JSE") Listings Requirements ("Listings Requirements") which provide, *inter alia*, that the Company may only make a general repurchase of its ordinary shares subject to:

- the repurchase being implemented through the order book operated by the JSE trading system, without prior understanding or arrangement between the Company and the counterparty;
- the Company being authorised thereto by its articles of association;
- repurchases not being made at a price greater than 10% (ten percent) above the weighted average of the market value of the ordinary shares for the 5 (five) business days immediately preceding the date on which the transaction was effected;
- an announcement being published as soon as the Company has repurchased ordinary shares constituting, on a cumulative basis, 3% (three percent) of the initial number of ordinary shares, and for each 3% (three percent) in aggregate of the initial number of ordinary shares repurchased thereafter, containing full details of such repurchases;
- repurchases not exceeding 20% (twenty percent) in aggregate of the Company's issued ordinary share capital in any one financial year;
- the Company's sponsor reporting to the JSE that it has discharged its responsibilities in terms of Schedule 25 of the Listings Requirements relating to the Company's working capital for the purposes of undertaking the repurchase of ordinary shares prior to entering the market to proceed with the repurchase;
- the Company remaining in compliance with paragraphs 3.37 to 3.41 of the Listings Requirements concerning shareholder spread after such repurchase;
- the Company and/or its subsidiaries not repurchasing securities during a prohibited period as defined in paragraph 3.67 of the Listings Requirements, unless it has in place a repurchase programme where the dates and quantities of securities to be traded during the relevant period are fixed and full details of the programme have been disclosed in an announcement published on SENS prior to the commencement of the prohibited period; and
- the Company only appointing one agent to effect any repurchases on its behalf."

The directors, having considered the effects of the repurchase of the maximum number of ordinary shares in terms of the aforegoing general authority, are of the opinion that for a period of 12 (twelve) months after the date of the notice of the annual general meeting:

- the Company and the Company and its subsidiaries ("the Group") will be able, in the ordinary course of business, to pay its debts;
- the working capital of the Company and the Group will be adequate for ordinary business purposes;
- the assets of the Company and the Group, measured in accordance with the accounting policies used in the latest audited annual Group financial statements, will exceed the liabilities of the Company and the Group; and
- the Company's and the Group's ordinary share capital and reserves will be adequate for ordinary business purposes.

The following additional information, some of which may appear elsewhere in the Annual Report, is provided in terms of the Listings Requirements for purposes of this general authority:

- directors and management – pages 6 to 9;
- major shareholders – page 124;
- directors' interests in securities – page 122; and
- share capital of the Company – page 124 and 125.

Notice of Annual General Meeting continued

The directors in office whose names appear on pages 6 and 7 of the annual report, are not aware of any legal or arbitration proceedings, including proceedings that are pending or threatened, that may have or have had in the recent past, being at least the previous 12 (twelve) months, a material effect on the Group's financial position.

Directors' responsibility statement

The directors in office, whose names appear on pages 6 and 7 of the annual report, collectively and individually accept full responsibility for the accuracy of the information pertaining to this special resolution and certify that, to the best of their knowledge and belief, there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the special resolution contains all information required by law and the Listings Requirements.

Material changes

Other than the facts and developments reported on in the annual report, there have been no material changes in the financial or trading position of the Company and its subsidiaries since the date of signature of the audit report and up to the date of this notice.

Reason for and effect of Special Resolution 1

The reason for and effect of the special resolution is to grant the directors of the Company a general authority in terms of the Companies Act 61 of 1973, as amended, and the JSE Listings Requirements for the repurchase by the Company (or by a subsidiary of the Company) of the Company's shares.

Statement of intention

The directors have no specific intention, at present, for the Company to repurchase any of its shares but consider that such a general authority should be put in place should an opportunity present itself to do so during the year which is in the best interests of the Company and its shareholders.

ORDINARY RESOLUTION 6

To authorise any one director or the secretary of the Company to do all such things and sign all such documents as are deemed necessary to implement the resolutions set out in the notice convening the annual general meeting at which these resolutions will be considered.

Any shareholder holding shares in certificated form or recorded on the Company's sub-register in electronic dematerialised form in "own name" and entitled to attend, speak and vote at the meeting is entitled to appoint a proxy to attend, speak and on a poll vote in his stead. A proxy need not be a member of the Company.

Proxy forms must be lodged in person or posted to the Company's transfer secretaries, Computershare Investor Services (Proprietary) Limited (70 Marshall Street, Corner Sauer Street, Johannesburg; P O Box 61051, Marshalltown 2107), by no later than 14h00 on Monday, 1 February 2010.

All beneficial owners whose shares have been dematerialised through a Central Securities Depository Participant ("CSDP") or broker other than with "own name" registration, must provide the CSDP or broker with their voting instructions in terms of their custody agreement should they wish to vote at the annual general meeting. Alternatively, they may request the CSDP or broker to provide them with a letter of representation, in terms of their custody agreements, should they wish to attend the annual general meeting.

In terms of the JSE Listings Requirements, Adcock Ingram ordinary shares held by The Adcock Ingram Holdings Limited Employee Share Trust will not have their votes at the annual general meeting taken into account for JSE Listings Requirements resolution approval purposes.

By order of the Board

Ramani Naidoo
Company Secretary

Midrand
1 December 2009

Annual general meeting – explanatory notes

ORDINARY RESOLUTION 1 – ADOPTION OF ANNUAL FINANCIAL STATEMENTS

At the annual general meeting, the directors must present the annual financial statements for the year ended 30 September 2009 to shareholders, together with the reports of the directors, the audit committee and the auditors. These are contained within the annual report.

ORDINARY RESOLUTION 2 – RE-ELECTION OF DIRECTORS

In accordance with the Company's Articles of Association, one third of the directors are required to retire at each annual general meeting and may offer themselves for re-election. In addition, any person appointed to the board of directors of the Company following the previous annual general meeting is similarly required to retire and is eligible for re-election at the next annual general meeting.

The following directors retire by rotation, and having been evaluated and had their suitability for reappointment confirmed by the nominations committee, are eligible for re-election:

2.1 EK Diack;
2.2 T Lesoli; and
2.3 KDK Mokhele.

Brief biographical details of each of the above directors and the remaining members of the board, are set out on page 6 of the annual report.

ORDINARY RESOLUTION 3 – AUDITORS

Ernst & Young has indicated its willingness to continue in office and Ordinary Resolution 3 proposes the re-appointment of that firm as the Company's auditors for the ensuing year. As required in terms of s274(3) of the Companies Act, 61 of 1973, as amended, the name of the designated auditor, Ms J Oliva, forms part of the resolution. The resolution also gives authority to the directors to fix the auditors' remuneration.

ORDINARY RESOLUTIONS 4 AND 5 – PLACEMENT AND ISSUE OF SHARES

In terms of sections 221 and 222 of the Companies Act, 61 of 1973, as amended, the shareholders have to approve the placement of the unissued shares under the control of the directors. The authority will be subject to the Companies Act, 61 of 1973, as amended, and the JSE Listings Requirements. The authority is furthermore limited to a maximum of 5% of the issued ordinary share capital.

Ordinary Resolution 5 is required in order for the JSE Listings Requirements to be complied with. The approval of a 75% majority of the votes cast by shareholders present or represented by proxy at this annual general meeting is required for this ordinary resolution to become effective. The authority is again limited to a maximum of 5% of the issued ordinary share capital.

SPECIAL RESOLUTION 1 – PROPOSED REMUNERATION OF NON-EXECUTIVE DIRECTORS PAYABLE RETROSPECTIVELY FROM 1 OCTOBER 2009

Shareholders are requested to consider and if deemed appropriate, to sanction the proposed fees payable to non-executive directors with effect from 1 October 2009 until the next annual general meeting as set out in the table hereunder. Full particulars of all fees and remuneration for the past financial year are contained on page 54 of the annual report.

Annual general meeting – explanatory notes continued

Category	Current remuneration (R)	Proposed remuneration payable with effect from 1 October 2009 (R)
Board		
Chairman	500 000	1 000 000
Board member	140 000	200 200
Audit committee		
Chairman	158 250	190 000
Committee member	83 250	95 000
Risk committee		
Chairman	158 250	190 000
Committee member	83 250	95 000
Remunerations committee		
Chairman	65 000	78 000
Committee member	45 000	49 500
Transformation committee		
Chairman	61 000	73 200
Committee member	36 000	39 600

SPECIAL RESOLUTION 2 – SHARE REPURCHASE

The board of directors believe that it may be prudent to obtain a general authority to repurchase the Company's shares should the opportunity arise and as a result require shareholders' consent by way of a special resolution for a repurchase of the Company's shares, subject to the provisions of the JSE Listings Requirements as set out in the proposed resolution.

ORDINARY RESOLUTION 6 – DIRECTOR OR SECRETARY OF THE COMPANY AUTHORISATION

Any one director or the secretary of the Company be authorised to do all such things and sign all documents and take all such action as they consider necessary to implement the resolutions set out in the notice convening the annual general meeting at which this ordinary resolution will be considered.

Form of proxy

ADCOCK INGRAM HOLDINGS LIMITED
(Incorporated in the Republic of South Africa)
Registration number 2007/106236/06
ISIN: ZAE000123436 JSE Share Code: AIP
JSE Share Code: AIP
("Adcock Ingram" or "the Company")

For use by certificated shareholders and "own name" dematerialised shareholders of Adcock Ingram in respect of the annual general meeting of shareholders to be held at 1 New Road, Midrand, Gauteng, on Wednesday, 3 February 2010 at 14h00

A shareholder is entitled to appoint one or more proxies (none of whom need to be a shareholder of Adcock Ingram) to attend, speak and vote or abstain from voting in the place of that shareholder at the annual general meeting.

This form of proxy is only to be completed by those ordinary shareholders of Adcock Ingram who hold ordinary shares in certificated form or who are recorded on sub-registered electronic form in "own name". Shareholders who hold dematerialised ordinary shares are referred to paragraphs 1 and 2 of the "Notes" overleaf for further instructions.

I/We, the undersigned

of (address)

being a member of the Company, and entitled to (insert number) votes, do hereby appoint

or failing him/her,

or, failing him/her, the chairman of the meeting, as my/our proxy to vote for me/us on my/our behalf at the annual general meeting of shareholders of the Company to be held at the Company's premises, 1 New Road, Midrand, Gauteng on Wednesday, 3 February 2010 at 14h00 or any adjournment thereof, as follows:

*(*Indicate instructions to proxy by insertion of the relevant number of votes exercisable by the members in the space provided below. If no directions are given, the proxy holder will be entitled to vote or to abstain from voting as such proxy holder deems fit.)*

	Number of votes		
	*In favour of resolution	*Against the resolution	*Abstain from voting
1. To receive, consider and adopt the annual financial statements for the year ended 30 September 2009			
2. To re-elect by separate resolution, each of the following directors who retire in terms of the Company's Articles of Association:			
2.1 EK Diack			
2.2 T Lesoli			
2.3 KDK Mokhele			
3. To re-appoint Ernst & Young Inc. as the Company's auditors			
4. To place 5% of the issued ordinary share capital under the control of the directors			
5. To authorise the directors to undertake a general issue of shares for cash			
Special Resolution 1. To sanction the proposed remuneration payable to non-executive directors			
Special Resolution 2. To authorise the directors to undertake a general repurchase of the Company shares			
6. To authorise any one director or the secretary of the Company to do all such things and sign all such documents to implement the above resolutions			

And generally to act as my/our proxy at the annual general meeting.

Signed by me (full names) in my capacity as

at (place) on this (date, month and year)

Signature

Notes to proxy form

1. A form of proxy is only to be completed by those ordinary shareholders who are:
   1.1 holding ordinary shares in certificated form; or
   1.2 recorded on sub-register electronic form in "own name".

2. If you have already dematerialised your ordinary shares through a Central Securities Depository Participant ("CSDP") or broker and wish to attend the annual general meeting, you must request your CSDP or broker to provide you with a letter of representation or you must instruct your CSDP or broker to vote by proxy on your behalf in terms of the agreement entered into between yourself and your CSDP or broker.

3. A member may insert the name of a proxy or the names of two alternative proxies of the member's choice in the space provided. The person whose name stands first on the form of proxy and who is present at the annual general meeting of shareholders will be entitled to act as proxy to the exclusion of those whose names follow.

4. On a show of hands a member of the Company present in person or by proxy shall have 1 (one) vote irrespective of the number of shares he/she holds or represents, provided that a proxy shall irrespective of the number of members he/she represents have only 1 (one) vote. On a poll a member who is present in person or represented by proxy shall be entitled to that proportion of the total votes in the Company which the aggregate amount of the nominal value of the shares held by him/her bears to the aggregate amount of the nominal value of all the shares issued by the Company (excluding treasury shares).

5. A member's instructions to the proxy must be indicated by the insertion of the relevant numbers of votes exercisable by the member in the appropriate box provided. Failure to comply with the above will be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting as he/she deems fit in respect of all the member's votes exercisable thereat. A member or the proxy is not obliged to use all the votes exercisable by the member or by the proxy, but the total of the votes cast and in respect of which abstention is recorded may not exceed the total of the votes exercisable by the member or by the proxy.

6. Forms of proxy must be received by the Company's transfer secretaries by no later than 14h00 on Monday, 1 February 2010. The transfer secretaries' address is:

   Computershare Investor Services (Pty) Limited
   70 Marshall Street
   Johannesburg 2001
   (PO Box 61051, Marshalltown 2107).

7. The completion and lodging of this form of proxy will not preclude the relevant member from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof.

8. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity or other legal capacity must be attached to this form of proxy, unless previously recorded by the transfer secretaries or waived by the chairman of the annual general meeting.

9. Any alteration or correction made to this form or proxy must be initialled by the signatory/ies.

10. Notwithstanding the aforegoing, the chairman of the annual general meeting may waive any formalities that would otherwise be a prerequisite for a valid proxy.

11. If any shares are jointly held, this form of proxy must be signed by all joint members. If more than one of those members is present at the annual general meeting either in person or by proxy, the person whose name first appears in the register shall be entitled to vote.

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Glossary

The following terms and abbreviations, used in this Annual Report, mean:

Adcock Ingram	Adcock Ingram Holdings Limited
AICC	Adcock Ingram Critical Care (Pty) Ltd
API	Active Pharmaceutical Ingredient(s) used in the manufacturing of products
ARV	Antiretrovirals, used in the treatment of HIV and AIDs
BBBEE	Broad based black economic empowerment, as defined by the codes of BEE good practice
BEE	Black economic empowerment
BMS	Building Management System
CSI	Corporate Social Investment
DMD	Drug management and development
DoH	The Department of Health of the Republic of South Africa
DTI	Department of Trade and Industry
EDP	Executive Development Programme
FDA	The Food and Drug Administration, a regulatory body in the United States
FMCG	Fast moving consumer goods
GP	General Practitioner
HVL	High volume liquids, used in the context of the plant currently being developed by Adcock Ingram at Clayville, Gauteng
IFRS	International Financial Reporting Standards
IT	Information Technology
JSE	JSE Limited, the securities exchange on which the shares of Adcock Ingram are listed
KTI	Kagiso Trust Investments
MCC	Medicines Control Council, the regulatory body responsible for evaluation of and monitoring the quality, safety and efficacy of medicines on the South African market
MHRA	Medicines Health Regulatory Agency of the United Kingdom
OTC	Over-the-counter products, available without prescription
PIASA	Pharmaceutical Industry Association of South Africa, an industry body
PIC/S	Pharmaceutical Inspection Convention and Pharmaceutical Co-operation Scheme
PTG	Pharmaceutical Task Group, an industry body of which Adcock Ingram is a member
R&D	Research and Development
ROI	Return on Investment
RONA	Return on net assets
SADC	Southern African Development Community
SEP	Single exit price, the price determined by regulation, at which medicines may be offered for sale on the South African private market
SIP	Strategic Industrial Programme
TGA	Therapeutic Goods Administration of Australia
TLC	Tender Loving Care (Pty) Ltd
TSG	The Scientific Group (Pty) Ltd
VMS	Vitamins, Minerals and Supplements
WHO	World Health Organisation
ZAR	South African Rand

for more information please visit
www.adcock.com